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INDEPENDENT OFFICES APPROPRIATIONS FOR 1964



HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

FIRST 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 SERVICE COMMISSION
FEDERAL HOME LOAN BANK BOARD
FEDERAL POWER COMMISSION
FEDERAL TRADE COMMISSION
GENERAL SERVICES ADMINISTRATION
INTERSTATE COMMERCE COMMISSION
RENEGOTIATION BOARD
SECURITIES AND EXCHANGE COMMISSION
SELECTIVE SERVICE SYSTEM
VETERANS' ADMINISTRATION

Printed for the use of the Committee on Appropriations



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INDEPENDENT OFFICES APPROPRIATIONS FOR 1964

MONDAY, JANUARY 21, 1963.

SELECTIVE SERVICE SYSTEM

WITNESSES

LT. GEN. LEWIS B. HERSHEY, DIRECTOR OF SELECTIVE SERVICE
COL. WILLIAM S. ILIFF, JR., ASSISTANT TO THE DIRECTOR
COL. BERNARD T. FRANCK III, CHIEF LEGISLATIVE AND LIAISON OFFICER

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
11 Personnel compensation:			
Permanent positions:			
Civilian	21,482	22,968	23,207
Military	2,788	2,828	2,910
Positions other than permanent	3,280	4,082	4,039
Other personnel compensation	184	63	223
Total personnel compensation	27,734	29,941	30,379
12 Personnel benefits	1,822	1,935	1,984
21 Travel and transportation of persons:			
Administrative travel	646	703	707
Travel of selectees	2,888	2,700	2,479
Payment to interagency motor pool	39	45	43
22 Transportation of things	153	176	132
23 Rent, communications, and utilities:			
Communication services	603	652	682
Rents and utilities	71	88	245
Penalty mail	618	695	772
24 Printing and reproduction	212	182	201
25 Other services	113	162	138
26 Supplies and materials	257	284	258
31 Equipment	792	51	123
Total costs	35,948	37,614	38,143
Change in selected resources	26	−46	−3
Total obligations	35,974	37,568	38,140

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	5,477	5,430	5,430
Full-time equivalent of other positions	985	1,174	1,159
Average number of all employees	6,211	6,507	6,413
Number of employees at end of year:			
Civilian employees	6,805	7,400	7,323
Military employees	246	246	246
Average GS grade	5.5	5.5	5.5
Average GS salary	$5,489	$5,893	$5,904
Average salary of ungraded positions	$4,069	$4,214	$4,291

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. National administration, planning, training, and records management	1,770	1,832	1,959
2. State administration, planning, training, and records servicing	6,286	6,690	6,999
3. Registration, classification, and induction	27,832	28,992	29,085
4. National Advisory Committee on the Selection of Doctors, Dentists, and ..llied Specialists	15	38	38
5. National Selective Service Appeal Board	45	62	62
Total program costs, funded [1]	35,948	37,614	38,143
Change in selected resources [2]	26	−46	−3
Total obligations	35,974	37,568	38,140
Financing:			
Advances and reimbursements from non-Federal sources: (5 U.S.C. 61(b) and 40 U.S.C. 481(c)) (−)	−1		
Unobligated balance lapsing	1,007		
New obligational authority	36,980	37,568	38,140
New obligational authority:			
Appropriation	37,085	37,585	38,140
Transferred to "operating expenses, Public Buildings Service", General Services Administration (75 Stat. 353 and 76 Stat. 728) (−)	−105	−153	
Appropriation (adjusted)	36,980	37,432	38,140
Proposed supplemental due to pay increases		136	

[1] Includes capital outlay as follows: 1962, $792 thousand; 1963, $51 thousand: 1964, $123 thousand.

[2] Selected resources as of June 30 are as follows:

	1961	*1962*	*1963*	*1964*
Stores	224	252	111	108
Unpaid undelivered orders	----	----	95	95
Advances	2	----	----	----
Total selected resources	226	252	206	203

Mr. THOMAS. Gentlemen, will the committee please come to order.

We have with us this morning the Selective Service System. It is always inspiring to have with us our distinguished friend, Lieutenant General Hershey, the Director; his assistant, Colonel Iliff; and the Chief Legislative and Liaison Officer, Colonel Franck.

General, do you and your staff have any statements you want to make? You might tell us generally how you are doing and we will go into your financial requirements later.

NATIONAL ADVISORY COMMITTEE ON THE SELECTION OF PHYSICIANS, DENTISTS, AND ALLIED SPECIALISTS

I was just wondering how important it is to you now to have this National Advisory Committee on the Selection of Physicians, Dentists, and Allied Specialists? I wonder why we do not set up a special board or committee for the lawyers and chemists and physicists? They are getting scarce too. How do the doctors work? In the final analysis is their say-so final, or does it go back to the board?

General HERSHEY. Mr. Chairman and members of the committee, on that particular subject we have always tried very hard to keep our jaws set. We take advice from everybody, but we make the decision. That is a little easier said than done.

Mr. THOMAS. Who is "we"?

General HERSHEY. Selective Service. The local boards handle most of this. It is only the troublesome ones that we hear about. The great

majority of things are settled at the local board or at the State level. We do get what the artillery used to call the overs. There are two or three ways that comes up. One way that comes up, not that it has any particular virtue, but it is just that somebody far away has to support the local board because they are living too close to it. Secondly, some people always take their appeals just as far as they can take them regardless of the virtue of it. We get some of those. And undoubtedly some have some grounds because at a time when you are taking very few and you are deferring very many there are differences of opinion as to what constitutes national interest.

Mr. THOMAS. We have no complaint to make with that statement. It makes good common horsesense. But why not defer lawyers and engineers and physicists and biochemists? Thev are scarce too.

General HERSHEY. This year there will be some people on the Hill before another committee talking about equating service not military in terms of military. I do not want to be a Drew Pearson, but I would prophesy it will not sell this year because I do not think we have enough experience to know how to equate hundreds of things being done in the national interest which are being done by civilians.

But back to the doctors, dentists, lawyers, scientists, schoolteachers, engineers, and whatnot. In the first place, you can say we are ducking the problem at the present time by the process of deferring the individuals who compare professionally with the doctors. We are attempting to avoid facing up to it. When they get to be 32 or 33 years old they might have to serve, but if they do not have to serve they get all the benefits of not going, and they miss the benefits the veterans get by going. That is one of the things the engineers and scientists kick about. They say: "We work in the national interest, but we do not get credit for it. We get deferred, but in time of crisis we will get dragged in after doing this other." There is some truth in it; but I do not believe the Congress is prepared at this time to say 3 years working as an engineer for Boeing is as good as 3 or 4 years soldiering. You cannot blame the Congress for not legislating when people are getting deferred and yet kick about it.

Mr. JONAS. There is a slight difference in pay, too.

General HERSHEY. When they get to be 32 years old they are still liable and that person who served is no longer liable, and they might get brought in.

Another thing is the question of prestige. The doctors get caught two ways. They get deferred but a certain number get forced in because we have to have doctors and we have to apply pressures to them until they volunteer.

Mr. THOMAS. We are familiar with everything you say, but the question we are concerned with is why give them special treatment over and above the lawyers and chemists and physicists by setting up a special board for them. You have $38,000 for this special board for the doctors. $38,000 is not a whole lot of money as money goes, but it is that much. Why set them up over and above everybody else?

General HERSHEY. I suppose I am in a peculiar position defending them because I was the person, when it was set up, that said I did not need advice and the only way I would go along with it—of course it would make no difference if I did or not—was that they would be advisers solely and not make the decisions.

I guess I had better say it off the record, but I do not think any group is better organized. I told this to Walter Reuther.

Mr. THOMAS. I think that ought to be on the record. The tightest group is the AMA and I think they taught Reuther, Lewis, and all of them a few things.

General HERSHEY. Nobody will worry that I said it, but it is true. That is one of the things I think the engineers and scientists have been trying very hard to get, the same solidarity. But the doctor is a very definite person because no matter how long he has been a doctor if he is not licensed he is not a doctor.

Mr. THOMAS. How much is it worth to you? You make the decisions and they are advisers. What are you paying $38,000 a year for?

General HERSHEY. I think what you are paying it for is to placate them and keep them quiet. If we get them off our hands somebody else will be after the money.

OEP MEDICAL ADVISORY COMMITTEE

When the last committee was appointed it did not have the blessing and therefore the people who were interested immediately began to move around until now we have another committee that advises OEP. The Rusk committee which served both of us has two descendants, the one I have got and the one they have. They have a committee organized by Executive order while the one I have has statutory background.

Mr. THOMAS. When you refer to OEP, that is——

General HERSHEY. The Office of Emergency Planning.

Mr. THOMAS. How does that fit in with the American Medical Association?

General HERSHEY. They have the committee and were pretty well advised who would be on it.

Mr. THOMAS. You mean who will be drafted or not drafted?

General HERSHEY. No; who will be on that committee. That committee will look at the broad picture.

Mr. THOMAS. What is that?

General HERSHEY. Manpower, war, peace, love, hate, everything.

Mr. THOMAS. That is the American Medical Association?

General HERSHEY. No; it is a Federal committee but they did agitate for it.

Mr. THOMAS. Who?

General HERSHEY. The American Medical Association. I do not know whether OEP comes before this committee or not. They do? Well, you will probably hear about it. They probably will cost a little more than mine because there are more of them.

Shall I proceed?

Mr. THOMAS. Yes. We are always glad to listen to you.

UNIVERSAL MILITARY TRAINING AND SERVICE ACT

General HERSHEY. I would like to bother you a little bit about some things I am sure you know, but this year is the year that the legislation that has to do with the Selective Service System is up before the Congress.

Mr. THOMAS. If my memory serves me, it expires June 30, 1963?

General HERSHEY. Yes. There is one thing being said I know you are familiar with. People talk about this act terminating. This act does not terminate. This act is a permanent act. The obligation that the young man has is permanent. The only thing that is not permanent is the power of the executive branch of the Government to induct anybody who becomes 18½ after June 30 this year or who has never been deferred.

Mr. THOMAS. The only thing that expires is the registration of those becoming 18?

General HERSHEY. No, they must register. They are liable but there would be no power to induct them. The registration will have to continue and the calls will have to be made from people under 35 years of age who have been deferred, and we have several millions of them. The scientific societies will not oppose the extension of this act because the inductions would be immediately on the people who had been heretofore deferred.

Mr. THOMAS. So for all practical purposes the only thing that expires is the President's authority to call so many to the colors?

General HERSHEY. He can call them but——

Mr. THOMAS. We are talking about the new registrants?

General HERSHEY. That is right.

Mr. THOMAS. That is the only thing that expires?

General HERSHEY. That is right. All the rest of them until they are 35 years—and that means for 17 years, about—you have the people from 18½ to 35 who can be called if they have ever been deferred, and we have millions of them.

PREPAREDNESS OF THE SELECTIVE SERVICE SYSTEM

The second thing I would like to say—I do not want to bore you particularly—here we have spoken this morning about things that we hope will have a turn for the better. But Selective Service finds itself in a position where it has to be able to induct nobody, or 2,000 or 3,000 a month, and yet within 60 days it should be able to induct, if called upon, a quarter of a million. No one believes we should hire all the time individuals needed to induct a quarter of a million. I am not worrying too much about rapidly hiring clerical help. The thing that worries me is keeping the local boards believing that what they are prepared to do, rather than what they do, is a challenging and significant thing they must do for their country rather than saying, "It isn't much of a job and I am through."

Mr. THOMAS. Well, the local boards are more than cooperative with you.

General HERSHEY. Yes, but it is the continuing process of keeping them believing that the countries who are likely to be our enemies are less likely to attack us if they know we can mobilize within 60 days a quarter of a million or a half million people. The people who are likely to be our enemies are more aware of the importance of this than many of our citizens are. One of the tests of how rough a country can be is their ability to mobilize. We did not do anything spectacular this fall but we would have faced quite a job this last fall if things had just happened a little differently than they did.

That is our problem. We are trying to stay small enough so that you can afford to keep us alive and try to keep 30,000 or 40,000 people who work for nothing believing there is a work they have to do. As Milton said, "They also serve who stand and wait."

NUMBER OF INDUCTIONS

Mr. THOMAS. What is the figure you estimated for inductions for the last 3 years and what is it for this year?

Colonel ILIFF. For the current year, 140,000. Last year it was 160,000.

Mr. THOMAS. And for fiscal 1964?

Colonel ILIFF. 129,000.

Mr. THOMAS. Against how many last year?

Colonel ILIFF. 160,000 last year.

General HERSHEY. That is one of the difficulties we are in all the time. Fortunately in some ways, we will not induct as many this year as we have money for and I believe we are going to avoid—I want the staff to check me on this—the necessity of a supplemental in order to meet additional postage and pay because we have more travel pay than we are using.

UNEXPENDED AND UNOBLIGATED BALANCES

Mr. THOMAS. What will be your unexpended balance this year by reason of your overestimation of some 40,000 inductees? Your big expense there is travel pay. We will follow that question up with how much was your pay increase and how much did you absorb?

Colonel ILIFF. On the basis of our request here?

Mr. THOMAS. On the basis of your appropriation last year what was your unexpended balance?

General HERSHEY. You want to know what we would have if nothing had happened?

Mr. THOMAS. Without the pay increase.

General HERSHEY. And increased postage?

Mr. THOMAS. And increased postage, that is right.

Colonel ILIFF. We would have had about $1.5 million.

Mr. THOMAS. Will you have any left with your pay increase and increased postage?

Colonel ILIFF. Yes, I think we will.

Mr. THOMAS. How much?

Colonel ILIFF. We cannot ever avoid getting in the neighborhood of $500,000 unexpended balance because we obligate in so many places. There is something between $500,000 and $1 million unexpended balance.

Mr. THOMAS. What was your unobligated balance for fiscal year 1962?

Colonel ILIFF. I cannot put my finger on the figure for 1962.

Mr. THOMAS. Give us a "horseback opinion" and you can straighten it out when you revise your remarks.

Colonel ILIFF. I would say it was about $1,100,000.

Mr. THOMAS. Go ahead, General.

General HERSHEY. I think I am ready for questions. I tried to sketch the situations very briefly overall. If there are any questions I would be glad to try to answer them. I wanted to point out we are like a fellow sitting around a firehouse waiting and hoping the fire will never come.

Mr. THOMAS. We all enjoy listening to you and your staff and I imagine the members of the committee have some broad general questions. Mr. Evins.

MAINTAINING LOCAL BOARD INTEREST

Mr. EVINS. What is the Director and State headquarters doing with reference to advising the local boards of the situation and trying to keep them in the proper attitude? They work uncompensated and I have thought a lot of the local boards are deteriorating, they are dissolving. What are you doing to keep local interest and enthusiasm up?

General HERSHEY. One of the things we worry about—we have two problems. First of all, you have to make the local boards believe there is a job that is worth doing and that they can do. We have tried to get some luncheon club that would be willing to let us give a 10- or 15-year service certificate at a luncheon, a recognition locally. The press has been very good locally about coming out and taking a picture of so-and-so. We try to get board meetings.

You have to do technical work keeping the clerks abreast too.

I have attended within the last 10 days three meetings of local boards. We had 70 in Tampa and about one-half that many in Lakeland on last Tuesday and Wednesday.

Mr. THOMAS. Off the record.

(Discussion off the record.)

General HERSHEY. It is true we lose some local board members but we have a lot of boys who went in in 1940 and most of them are getting old. Our people, I think, have been pretty persistent. It is not easy to get people to take their places. It is a thankless job and we do not have the enthusiasm in times like this that we have when we are under attack.

But I would not agree we have suffered much deterioration. I have not seen all the boards in this country but I expect to see thousands of them in a year.

One of the things I try to do, I have a policy that many people may not understand, but it is more important to be on the road when you are doing nothing; you do not have to worry about being on the road when you are working. When the call is 4,000, that is when you have to be on the road saying there is a potential having to do with the safety of the country. States vary some, as human nature does. Some directors and some of the staff people can do a better job than others. We have clerical organizations that get together, and one of the ways to keep the board together is by having good clerks.

PERMANENT NATURE OF SELECTIVE SERVICE SYSTEM

Mr. EVINS. General, you look upon Selective Service as a permanent Government agency?

General HERSHEY. Yes. We have universal service. The armed services have never been sold on training enough people for short periods of time that they have gone to Congress. That is one thing I do not agree with the way the people across the river operate. There is no secret about it. I do not believe in a country like ours we will ever have enough professionals to insure our survival. One of the worst things you can do for civilians is to have them believe that somebody else is looking out for them. You do not want the civilians to forget they may have to save themselves.

Mr. THOMAS. Is that one of the things on which the Reserves and National Guards rest?

General HERSHEY. It is the basic and fundamental thing.

Mr. THOMAS. They certainly keep the home fires burning, do they not?

General HERSHEY. Any time anybody thinks somebody has taken over their vital functions, we are lost as a country. I think the professionals do an ill-service when they say, "Give us the money and we will protect you." They cannot. They are the edge of the blade but the back of the blade has to be the citizenry.

AID OF THE SELECTIVE SERVICE SYSTEM TO RECRUITING

Mr. EVINS. Do not the Army and Air Force get all they want?

General HERSHEY. They do when we chase them in. In a month you will have them coming in and telling another committee of the House they want Selective Service because they cannot get them unless they have Selective Service. A recruiter is told to get a quota.

If anybody wants to look into something, look at the number of people who do not finish basic training.

Mr. EVINS. Recruiters make it appear very attractive.

General HERSHEY. That is their job. They are told to get a quota. I have been trying to sell for years the idea that if everybody would take what they need from our pool they could enlist them after they get in, after they found if they want them. The thing that worries me is to go out in the highways and byways and take hungry upset youngsters when they could wait until they had their basic training and then go back to the Reserves and stay there. But I cannot sell it. I am like the fellow who identified 28 flavors of liquor and he identified them correctly and then they gave him water and he said, "I don't know what it is but you can't sell it."

MILITARY PERSONNEL IN THE SYSTEM

Mr. EVINS. General, you have a sum set up for military personnel assigned to the boards and so on. Cannot the Army take care of that?

General HERSHEY. You mean in the State headquarters?

Mr. EVINS. All over in your organization.

General HERSHEY. They run this reservist system. If the Armed Forces are to run the Selective Service too, they can. But I think—of course this is a matter of opinion—but I think for the area I cover I do not believe you can find many organizations that have only around 150 persons in Washington with 50,000 people and 25 million registrants, and when you go out in the States if you do not have some-

body selling the people that they should stay in as local board members, the people doing it are Reserve officers. In the first place, we do not get caught except at the State director level, we do not get caught with changes at the State level. Our military people on active duty do not get caught in the changes.

Mr. EVINS. Mr. Chairman, I want to tell the General my colleagues a little experience in this field. I know a particular individual about to be drafted who tried to get a farm deferment. It was denied. He tried to get a deferment to go to college. It was denied. He then got married and finally he was sent in service. He took 6 months of basic training and when he came back he said, "It is not as bad as I thought it would be. I thought it would be drilling and shooting. I was going to school and getting paid for it."

I think that is all.

Mr. THOMAS. Mr. Boland.

NUMBER OF BOARDS AND MEMBERS

Mr. BOLAND. What is the total number of people serving on Selective Service boards?

General HERSHEY. We have 4,000 boards and 3 members are the minimum on each board. Some have five members. So with 4,000 boards you will have at least 12,000. I would put it near 15,000 or 14,000.

Mr. BOLAND. How great is the turnover? Is it considerable?

General HERSHEY. I would think on a percentage basis I doubt it is 5 percent in a year. We will have it greater, though, because we are getting a lot of people who are old. They have been a persistent lot of people and they do not quit. They die.

Mr. BOLAND. They have done a tremendous patriotic job. The whole backbone of this system rests on the local boards.

APPEALS

How many cases reach the appeal boards? Are these registrants that appeal to the President or appeals by Members of Congress, for instance?

General HERSHEY. There are three ways to get there. In the first place I believe, and I think most people do, in a very elastic appeals system so that, even if a person does not have too much reason, he feels better if he is told by more than one person.

Anybody can appeal to the appeal board in the State. He does not have to have any reason, he just has to say he wants to appeal. He should say it within 10 days. If one member of a five-member appeal board in the State votes differently from the other four, then he has a complete right to appeal to the President's Appeal Board. If five are against him he can go to the State director, who has the power to appeal for him to the Presidential Board, or he can come to the National Director. This is not just something on paper. We take a great many appeals to the Presidential Board. Our local boards obviously do not like to have anyone disagree with them, but on the other hand the Congress or the regulations set up two places for the man to go and in these days if there is the slightest doubt we would appeal because, first of all, time is no great object. We have our whole

system attuned to being very, very careful, and yet if new calls go up to 50,000 or 100,000 you cannot spend all this time. But your local boards get accustomed to being sure they are right and it is a very bad practice to be training for 100,000 calls, but that is just one of the things we have to worry about. I think I take more appeals than any State director. We generally, in case of doubt, have somebody else look at it on the assumption that if Willie has to go he would be a little less unwilling to go if three boards tell him he has to go.

NUMBER AND NATURE OF REJECTS

Mr. EVINS. General, how many rejects annually are there because of educational deficiencies?

General HERSHEY. I cannot give you the numbers. If you want to think in broad terms of the people that have been rejected over the years, you can figure that about 40 percent of them will be rejected for mental reasons, 40 percent for physical reasons, and about 20 percent for both reasons. This past year our rejection rate was very, very high. In the preinduction examinations it was 50 percent, and about 20 percent at the induction stations.

Do you have any idea how many we examined last year?

Colonel ILIFF. About 700,000.

Mr. THOMAS. You turn down 15 or 20 percent. The armed services turn down 40 percent for physical reasons, 40 percent for mental reasons, and 20 percent for both. Break that down in numbers.

General HERSHEY. If I might give it "off the cuff."

Mr. THOMAS. Yes.

General HERSHEY. First of all, of the 700,000 there was 10 or 12 percent that were taken out because we rejected them as obviously unfit.

Mr. THOMAS. Twelve percent?

General HERSHEY. Twelve percent. That is pretty close. Then let us state 50 percent of those who went up are rejected.

Mr. THOMAS. Is it clear that of the total number you sent up, 50 percent were rejected?

General HERSHEY. 350,000 were rejected.

Mr. THOMAS. Out of how many?

General HERSHEY. 700,000.

The next one is not easy because there are two things in it. If I told you that a quarter of these, which would be from the 350,000, it would not be quite accurate, although the percentage is right. Some of the people rejected were volunteers and are coming up for only the first time, and that tends to make the percentage at the induction station a little wrong. However, in the old days that used to be——

Mr. THOMAS. What is the 25 percent for?

General HERSHEY. That is the number rejected at the induction station.

Mr. THOMAS. For what; mental, physical, or both?

General HERSHEY. Both. If we can get the totals together I can give you numbers. Break down the 350,000. About 40 percent of those would be about 140,000, and that is mental; 140,000 are physical only, and about 70,000 have both physical and mental. Therefore, if you go back to mental, you asked that question, it would be 210,000 which have something wrong mentally.

MENTAL REQUIREMENTS

Mr. THOMAS. What is a mental defect and what is a physical defect? The figures up to now are clear.

General HERSHEY. A mental defect in this case is an educational one. It does not include psychiatric or emotional behavior. They are all physical. Mental is used to mean something else in our case. We have a place where a man marks different places—if he marks the wrong ones or not enough of the right ones, that is mental.

Mr. THOMAS. Spell out the mental requirements a little clearer. Is a fifth grade education required?

General HERSHEY. It is higher than that. Congress at one time said they could not reject anybody who scored 10 percent; that is, if they scored greater than 10 percent of the people scored, that was it.

That law was changed 3 years ago because the President could control the standards for enlistment. He was allowed to set it for inductions and it is now set at 31 percent.

Mr. THOMAS. What amount of schooling qualifies him to pass that examination?

General HERSHEY. I am afraid you have me in water too deep for me.

Mr. THOMAS. Give us your best guess. Does it mean a fifth grade education? Is it third grade?

General HERSHEY. There is little possibility of acceptance unless you have had seventh grade or higher, and I think your chances of getting in unless you are high school are not good. We have a great many high school graduates who get rejected.

Mr. THOMAS. Purely on account of lack of education?

General HERSHEY. At least they didn't have the right kind to pass the examination, which is almost unbelievable.

I don't want to get into what has happened. We have had trouble with people with master's degrees getting turned down, but——

Mr. THOMAS. That doesn't make sense.

Mr. JONAS. They have to put the right block in the right place.

General HERSHEY. They accept some people who do not pass the mental by giving them some sort of occupational test. If they show good sense they take them.

Mr. THOMAS. The classification work does not amount to much, then?

General HERSHEY. That is right.

Mr. THOMAS. It is misleading to say your function is induction classification. That is done by the armed services after you send them there.

General HERSHEY. We classify for availability. They classify for acceptability.

Mr. THOMAS. That is a play on words.

General HERSHEY. It is not.

ORIGIN OF REJECTEES

Mr. THOMAS. Where do these rejectees come from? Is there any particular section of the country? Is it broad, general, does it follow the same pattern in each of the 50 States?

General HERSHEY. If you take a map which shows the lowland generally in green, and a great deal of it is southeast——

Mr. THOMAS. Map put out by whom?

General HERSHEY. Geological Survey. They put the green on to show low country. However, it just happens——

Mr. THOMAS. What do you mean by low country?

General HERSHEY. Low altitude. You start and draw a line at about the Mason-Dixon line, and turn it south eventually, that is it. Your State has some problems which they do not have in Alabama or Mississippi or some of those. You have a great deal of Spanish-speaking population. Wherever you have a second language you have high rejections because the man must take the examination in English, unless he is a Cuban refugee, and that is a separate thing. I don't know whether you want to get into that.

Any time you have multiple language—Texas, Arizona, New Mexico, southern California, they all have rejection problems which have to do with language.

There is a little in New England, infiltration of French-Canadians.

Any place in the South where you have multiple races you have high rejection. Some people say because there is a little difference in schooling. I don't pretend to know. I just know wherever the Negro population is large the rejection rate is large.

Perhaps you have heard overtones of some of my activities lately. We did some studying here in the District. The curve has a lot to do with the race so far as standing in schools is concerned.

Mr. EVINS. The population census shows more than 50 percent of the colored population is north of the Mason-Dixon line.

General HERSHEY. That is right. There is no question of the South Chicago rejection rate, Philadelphia, and New York City. New York City has a lot of problems. They have a Puerto Rican problem and the Cuban problem to some extent, not like Miami, but they have it. As long as you put the examination in English in those places you will have a lot of people who do not pass it. Maybe some don't want to pass it; that is debatable.

Mr. RHODES. Is there any chance a lot of people fail this test voluntarily? I could fail it if I wanted to. Do you think there is a great incidence of this?

General HERSHEY. Yes, but I don't think that is as great as some other factors. There is no question about the fact that when you herd kids up at 3 or 4 in the morning, get them where they have never been, get them on a bus and push them around, obviously the testing arrangements are not good.

Not only that, but I majored in education, though many people don't believe it. I say we are not yet able to test the things we want to test. The things you test are the obvious things. Many of the things we test are not of as much importance as those things we cannot test. The things we cannot test we ignore scientifically. I am more interested in whether you can trust a man than in whether his feet are formed in a particular way.

MANPOWER UTILIZATION

Mr. THOMAS. Mr. Jonas, you have been close to this activity for many years. I hear more people say that more square pegs are put

in round holes in the armed services than any place on earth, and there is one of our biggest national losses. You get the young fellows in the service and get people in spots where they are least qualified to serve.

Does the committee hear that?

Mr. EVINS. Yes.

Mr. BOLAND. Yes.

Mr. JONAS. I get many complaints on that line, but that is not the responsibility of Selective Service.

General HERSHEY. That is right. You hear from vocal people. You hear from people who have gone to school long enough to know better and yet have not found out a great many things, and therefore it is hard to find something that is appropriate for them to do. The Armed Forces have the problem, but so did the companies.

I had a kid come into my office a year ago, a fine lad. He tried to sneak a little bit by asking me questions that showed what he was interested in. He was asking about an organization being organized at that time.

I said it was all right. He asked whether he could go to it.

Then he asked, "When I come back what will happen to me?"

I said, "Same thing as if you stay here."

He asked, "Then why do I go to this place?"

I asked, "What do you have in mind?"

Then he said what they all say—"I wouldn't mind joining the Armed Forces if they gave me something appropriate to do."

He just graduated from a fine college. I said, "What would that be?"

He thought and said, "I don't know." The kid was perfectly honest. He thought somebody should turn something over to him.

Mr. THOMAS. What you are saying is that the military is different from civilian life, and the military is not too much akin to a civilian job, but that is not exactly true. There are many things the military does which fit into civilian life.

General HERSHEY. There is no question about that. There are many things in civilian life, too. I am engaged in things this morning which I don't care to do, for example, but I have been doing them every morning.

Mr. JONAS. You cannot get around the fact that occasionally they put a boy driving a truck who has worked for years in the electrical business. He may not be an electrical engineer but he has plenty of skill in that field and he cannot understand why there is not something in the Army for him in the field where he is experienced rather than wasting his time driving a truck. A lot of that criticism is justified but I do not think it is properly directed against Selective Service because you have nothing to do with it.

General HERSHEY. That is right.

Mr. THOMAS. Here is the startling point right here, Selective Service. It seems to me they should have greater influence with the armed services on how they will use this manpower because it is this group which originates them. Doesn't that make sense? You may have to have some law.

General HERSHEY. It does to me.

Mr. JONAS. You are right, but it takes a stout leader.

General HERSHEY. The acceptance of my opinion in the Armed Forces has not been very high and from my observations it is growing less.

RECLASSIFICATION OF INDUCTEES

Mr. JONAS. Changing the subject, I don't know whether there is anything you can do about it, but one point of criticism that comes to my attention is based on these facts:

A local board registers a person in 1–A. If he doesn't appeal in 10 days he has lost his appeal rights. They don't call him up for induction or examination until years have passed.

Meantime he has changed his job or he has become more important in the job he had, or circumstances have changed. He asks the board to reopen his classification and they will not do it. He has lost his right of appeal.

Is there any way you can correct that?

General HERSHEY. We have worked at it. One of the things we are up against is the fact we are supposed to classify people rather early. The law we have was written during Korean times.

I have not hesitated to permit the States to delay classification, whenever they cared to—they didn't ignore the law—but I don't think it is always true that a young man who can't find a job is because he is in 1–A. He is likely to pick the most obvious reason as to why nobody will hire him. Realizing that may happen we figure he is in better shape to get a job if he is not classified than he is if he has 1–A, although, as a matter of fact, he is just as vulnerable if anything happens. However, the man hiring him doesn't think about that one, so therefore we have delayed classification with the hope that the man will be classified initially sometime near the time he was going.

Some of the States didn't want to violate the law and we are not in a position to tell them to violate the law. If they ignore it, that is different.

Let us see what we can do about the fellow who gets classified at age 18½ at 1–A and we will not take him until he is 22½, which puts him in a rather awkward position. He has no reason at 18½ to have an appeal, and we have no business handling it, anyway, because we are not fooling with him.

I realize it is not much of an answer to say that everybody who has ever come to national headquarters with that situation has had his rights restored. I hope most of my State headquarters and I hope most of my local boards will take care of this. In some local boards it is difficult for them to get over World War II. That is the way which they have been doing it. That is not the majority, however.

We restore most of the appeal rights.

Mr. JONAS. I have advised most of those who have come to me to take it up with the State director.

General HERSHEY. Or with us if they fail there by all means. I understand your relationship. When a person elects someone to Congress they expect he will run their errands for them. I understand that thoroughly.

Not only that, I have always welcomed you people calling on us. That is how I keep Colonel Franck in business.

Mr. JONAS. I wondered if there was some possibility of creating a pool of availables without actually putting them into 1–A until you are ready to induct them.

General HERSHEY. One of the things we have to go a little easy on is the law. The law says they are to be classified as soon as they are 18½. That goes back partially to the situation in New York City at the time the Korean war broke out. The person not in 1–A does not get in. The quota is placed on the 1–A's. It is an awkward situation to have so many people in 1–A.

The only thing I would say is to go to the State director and if you get nothing from him come to us.

Mr. JONAS. By your regulations you can let the local boards know there is no objection to reopening classifications.

General HERSHEY. Yes, we can let them know. Sometimes they have pretty firm ideas. They claim they have not done it for somebody else.

POLICY TOWARD COLLEGE STUDENTS

Mr. JONAS. What are you planning to do about college students?

General HERSHEY. At the present time if the situation remains as it is we will continue very liberally. They have to show they are actually going to college, genuinely, full time, and seriously, and that they are acceptable to the college.

Mr. JONAS. Does that apply to graduate work or work at a professional school? Do you let a boy go through college now and then to professional school?

General HERSHEY. Yes, he can. There we have some boards where you have to appeal. We have not inducted an engineering student in quite a long time. That is the area we have to intercede because I think there is some difference of opinion.

Local boards do not like to have individuals go to school until they are 26 and then pass into 1–A. I accept that as one of the situations where we find ourselves at the present time.

ENLISTMENT DURING THE INDUCTION PROCESS

Mr. JONAS. At what point in the selective service process is it to late for a young man to try to enlist?

General HERSHEY. As far as I am concerned when he holds up his hand and is sworn in it is too late.

The local boards are powerless because the heat gets on them. After issuing an order for induction they are not supposed to change. The State director has the power and exercises it and if you do not get it there I will let people enlist because I go under the assumption——

Mr. JONAS. If they get into the service, that is it.

General HERSHEY. We have what we call the 5 o'clock jobs. It is a little late the next morning. We have pulled them out of line but that is a little late.

This includes not only the Regular Forces but the reservists. The Regular Forces are quite happy to have us terminate an order.

Congress said you cannot enlist after you have an order for induction. All we do is to terminate the order for induction and then he can enlist. Sometimes the local boards get angry because they chase

a fellow around quite a while and feel they ought to have gotten in a little earlier.

I have read the Bible and it says the 11th hour and the 59th minute.

EMERGENCY OPERATIONS OF THE SYSTEM

Mr. RHODES. The structure with which you now operate has two functions: One is to do the job you have to do today, and the other is to prepare to do a job you might have to do tomorrow.

What is your force objective for the latter function, the standby function which you have?

General HERSHEY. First of all we have to do something about expansion. In the expansion field we have about 1,400, and that counts those on actual duty. You have approximately 1,300 officers who are either in the National Guard, or in one of the organized reserves which we call earmarked. We furnish the trainers to train those people although they are paid by the service to which they belong. They are the people who will furnish us the expansion. If we should happen to get into a catastrophe, we have to think of a time when we might tell people to do any kind of thing that had to be done, military or otherwise, because in those days what is military and what is civilian ceases to exist. They are all just people trying to live.

We think this 1,300 is a rather modest amount because when you figure 56 States and territories, we can easily lose several headquarters completely becaues they might get hit. These 1,300 people are organized in two ways—to go out as individuals and fill in, and they are also organized so we can send a whole headquarters out.

Mr. RHODES. Is the pay they receive for training periods charged against Selective Service?

General HERSHEY. The Armed Forces pay that.

We did have a bit of a go-round on that and I don't suppose we would have one were it not for the fact Congress decides the number of drills the National Guard trains. We figured it was not fair to put one on one system and the others on the other system.

In several States we have local board people, people who have agreed to accept appointments as local board members, and we circulate material to them. We have tried to tell our local board members that they might find themselves completely isolated and they have to get their calls for people from the Governor of the State. It might be from the mayors of the city. It might be from the captain of the National Guard or Reserve units, but from whoever they got the orders who was running the thing at that time, to deliver them, and don't worry about what you delivered them for.

NUMBER OF INDUCTIONS

Mr. RHODES. Three years ago you were inducting over 200,000 people a year. Last year you inducted 160,000. Your production is not as high as it has been. As I read the justifications your personnel are about the same.

General HERSHEY. Yes.

Mr. RHODES. It appears to me that if this is true, that production is going down, with personnel about the same, some of the personnel

must be on standby basis at the present time. In other words, you have kept more people than you now need, anticipating possible sudden increases in workload.

General HERSHEY. In the first place, if you go back to the start of fiscal year 1962, which was the fall of calendar year 1961, we put some people into the service; that tended to increase our inductions.

If you back to fiscal years 1961, 1960, 1959, and 1958, I think you will find that those years were smaller than in 1962 and smaller than the projection for fiscal years 1963 and 1964. In fiscal year 1958, there were 126,000 inductions; in 1959, there were 111,000; in 1960, 60,000; in 1961, 61,000; and in 1962 there were 159,000.

RELATION OF INDUCTIONS TO TOTAL WORKLOAD

I would like to point out first that 85 percent of our work has nothing to do with the numbers we induct. The numbers we have to register, classify, process, the numbers of people we have to defer—for instance, the college load, it is around 300,000. It takes a lot more time for a local board clerk to take care of 300,000 deferments than it does 150,000 inductions. After you have the deduction, that is it. These kids going in and out of school are with you all the time.

We have about 80,000 people who are deferred in industry, and many are engineers and scientists. They change jobs often and there is a lot of paperwork involved there.

The next thing is that I don't know just how you cut back to the place where you can get along for the moment and have any anchor to windward.

You can go to the Armed Forces and ask how much money they used in Vietnam. They will tell you, and that is it.

Then you ask about Germany and they can take care of that. That is the logic.

Mr. RHODES. How many people can you induct without increasing your personnel?

General HERSHEY. We had no trouble in 1961. I don't know whether we could have kept it up. It is one thing to take local board clerks and hammer them hard for 2 or 3 months and get by, but if it had continued 2 or 3 months more I think we would have had to make increases.

Several things were involved. First, you have a lot of lads that don't let you know anything about them. As soon as there is a crisis, immediately you get a slug of mail. The local board clerks get snowed under.

We got those calls out, and then when we got around to it they found out who had children in the last 3 or 4 years.

If we had had 3 or 4 more months of calls we would have had to increase 35 or 40 percent at least. There would also be difficulty there. Just getting people will not do the job unless we get people especially scattered around.

USE OF MILITARY PERSONNEL

Mr. RHODES. You have a number of military personnel permanently on duty with Selective Service. Why do you have a force part civilian and part military? Is this a good thing? What is the history of it?

General HERSHEY. I happen to believe—and I am perhaps prejudiced—that one of the reasons they have military in the first place is that it was the only way before 1940 that you could train people and find them. If you had no Selective Service and the Armed Forces tried to expand, even as they did in 1961, they would have been in a great deal of difficulty.

If you had anything approaching a mobilization, they are not the ones who train them. Therefore, up to date they have been willing to invest some money in training some people.

The military services paid all our military personnel in the Selective Service System all during World War II, but after money got tighter they wanted somebody else to pay it.

I think in the first place you have to interpret the Armed Forces to the public when you are in the selective service business because many people, no matter what they don't like about the Armed Forces, they go to the local board.

While the local board is civilian, it is true you have people who have had experience in the military.

If we got up into the higher levels we would lose people everytime there was a State election. Up to the present time we have lost one at the most, and many times we didn't lose him because fortunately many places are standardized, and I think there is more confidence in the fellow who is sort of a neutral.

I have several States, even when I meet the local boards, where my State director says they have more respect for a uniform. In some places that is not so.

I have not had the other experience, but I have had times where it helped both the Governor and me to be able to get out from under pressure by saying "I cannot do much with these people here."

Mr. THOMAS. You didn't give Mr. Rhodes a good answer.

Mr. RHODES. Where do you use these people?

General HERSHEY. State headquarters, national headquarters, regional headquarters.

Mr. RHODES. Do they do contact work?

General HERSHEY. They run the system. The State headquarters has primarily the job of procuring the people, training them, and supervising them. They have the job of taking——

Mr. THOMAS. Procuring and training the local board.

General HERSHEY. And clerks.

Mr. THOMAS. The authority is in the people they have trained.

General HERSHEY. The doctors we have who do our examining, and the advisers to the local boards, those people have to be procured. We don't get into the procurement business.

Mr. THOMAS. What special qualifications does a military man have to have? Mr. Rhodes was not criticizing.

General HERSHEY. I don't know what a military mind is. I perhaps never had one.

Mr. THOMAS. You are a lieutenant general.

General HERSHEY. Thank you. Many people don't recognize that. I don't like to detract, but I want to tell you briefly about the fellow who was a doctor and lawyer. The lawyers called him doctor and the doctors called him judge.

I am in very much the same situation. When I go among civilians I wear a uniform and tell them what I should. When I go to the military I wear a civilian uniform and say "Listen, you birds," and so forth, and so forth.

ADVANTAGES OF HAVING MILITARY PERSONNEL IN THE SYSTEM

First of all it is the way these people have been trained. When people are in uniform they are not subject to many stresses as are people who are not in uniform. I can try them for far more things than you can try civilians.

Mr. RHODES. You mean if the State director wants Colonel So-and-So, who is on active duty with Selective Service, fired, he cannot fire him?

General HERSHEY. He has to have a reason so he can prefer charges, that is right. He has to establish this man has done something wrong or he is completely inefficient.

I have a problem now. There is a fellow where they will recommend we appoint a deputy director in the State and we are not going to do it.

We have a new governor and he will get a new director, there is no doubt about it. After he gets the new director he is like the girl where a boy asked whether he can have the last dance. The girl said, "You have had it."

We can always take on one man.

Mr. THOMAS. You never fire any of the military personnel. You merely transfer them, don't you?

General HERSHEY. These military personnel that you have in the States are all from the States. They know the people down there and have lived with them. But there is some detachment there which you could not otherwise have. The Armed Forces are the ones mostly interested. If they have somebody who understands their problem they will get a lot better treatment than if they go to other departments of government I can name.

Mr. JONAS. You would not save money if you got competent civilians. You would have to pay them more on the average than you do military personnel.

General HERSHEY. I am afraid so now. I don't have to worry about overtime with any of these people, either.

You wouldn't believe it, gentlemen, but I could have a lieutenant or a captain driving me cheaper than I can have a civilian because I keep rather bad hours.

Mr. RHODES. What kinds of charges would you have to prefer? Are they military charges or under the Civil Service Act?

General HERSHEY. Comparable to Civil Service.

Mr. RHODES. If such charges were preferred and substantiated you would ask the military services to terminate the active duty of the officer?

General HERSHEY. Yes.

Mr. RHODES. I would like to say that I am very much in favor of the system now being operated.

I used to be one of the 1,300 officers earmarked for Selective Service.

General HERSHEY. I never forget my boys.

Mr. RHODES. At that time I knew a little about Selective Service. In my State every officer who has been called on active duty to work on active duty is an old National Guardsman or reservist. They do a whale of a job.

Mr. JONAS. Off the record.

(Discussion held off the record.)

FEDERAL-STATE RELATIONSHIP

General HERSHEY. We operate an impossible system. We have a system in which the State director works for two directors. Nobody can work for two masters, but we have to. The place where we coordinate the Governor and the National Director is through our State director. I have known pretty nearly 300 Governors. If I ever had time to write a tribute to them I would like to do it. It has been a great experience.

Mr. THOMAS. Actually, what authority does a Governor have?

General HERSHEY. He is head of the system in his State.

Mr. THOMAS. Other than being a titular head and appointing a State director. He does not make the decision.

General HERSHEY. He recommends them. He also recommends local board members and other uncompensated local board people.

Mr. THOMAS. But he still doesn't have the authority. He doesn't attempt to exercise it. He appoints them.

General HERSHEY. That is another story. What you try to do is to have the prestige which goes with the head of the State and then try to see that he never has to do anything about it if you possibly can.

You have to protect him. After all, he has his problems. It has been a marvelous job. I could name some Governors that you would think didn't amount to much and I will say they have backed me to the limit under very difficult circumstances. They didn't always come out and say so, because that is something else. But they didn't want their States to fall behind. This has been a great experience.

Mr. THOMAS. Spell it out. How could they back you? They can put pressure on the local draft board they appointed?

General HERSHEY. Let us say we have a State where there is some turmoil and six or eight boards resign in protest, as has happened. We have a Governor who, fortunately, perhaps for him, was not in agreement with everybody up here in Washington—not me but some of the others.

He would say "I don't blame the board members for resigning but I hope no other board member does."

Then he says "Let this simmer and I will give you some recommendations for new board members."

It is a very sensitive, and yet a very successful, relationship. That State director has to have one thing. He has to have the confidence of his Governor.

Mr. EVINS. If a new Governor comes in and he doesn't like the present State director, you will remove him?

General HERSHEY. The answer is "Yes," obviously, but I will not remove the deputy director, nor the rest of them. Congress said he has the right to recommend the director and we have played it that way.

Mr. EVINS. When a new Governor recommends a State director, do you approve him?

General HERSHEY. Yes. Unfortunately, now I have to run a security test which I didn't used to do. In the old days the day he was recommended he got appointed.

At the present time I have to run a security test, unless he has had one. Sometimes he has had one. You will be surprised at how few times they appoint somebody that we didn't happen to know because they were some of the boys who took training.

Mr. EVINS. You mean a fellow like Mr. Rhodes?

General HERSHEY. Yes. They might recommend him for director out there and we would be glad to have him.

JUSTIFICATION OF THE ESTIMATES

Mr. THOMAS. Gentlemen, this has been very instructive and I think we have made a good record.

Insert the first five pages of the justifications into the record.

(The material referred to follows:)

SELECTIVE SERVICE SYSTEM, FISCAL YEAR 1964

There is presented herewith justification for the request of $38,140,000 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 1964.

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 1964 includes the provision for such services in project 30.

The Selective Service System, which is decentralized, is organized on a pyramidical structure, the broad base of which is the local and appeal board structure where the contact is maintained with over 26 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 93 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 1964 is based on the induction of 129,000 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 1964 over 1963 are: (1) statutory pay increases for the full year period including a 6 months additional increase. A similar raise for local board clerks not covered by the statute for civilian raises; and (2) increase in postal rates for a full year in 1964 as against half a year in 1963.

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	[2] 1,504,848
1964	1946	1,414	[2] 1,525,847
1965	1947	1,955	[2] 2,109,836
1936	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.

The figures in this justification are based on congressional action to up-date the expiration of the general authority to induct registrants which, under the present statute, will expire June 30, 1963. There are available sufficient numbers of registrants who, by reason of deferment, have had their liability extended and would be inductable after June 30th to more than meet the estimated requirements of 129,000 inductions in fiscal year 1964. However, the use of these registrants to fill calls would increase the workload in order to bring them up for induction.

A request is included for the replacement of motor vehicles. In fiscal year 1963, 17 vehicles are being replaced. For 1964, another 22 are being requested for the amount of $43,250. These are: (1) the replacement of the 1961 sedan assigned to the director. This vehicle is now well over the 60,000 mile replacement requirement; (2) 6 automobiles to replace those which have passed both the age and mileage requirements; and (3) 15 stations wagons, all of which have met the age requirement. Nine have already met the mileage requirement. It is anticipated that the other six will meet the mileage requirement in fiscal year 1964.

Our fleet consists of 1 heavy sedan replaced in 1961, 44 other automobiles, 27 station wagons and 13 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.

Selective service system consolidated summary of objective classification

	1962 actual	1963 estimate	1964 estimate
11 Personnel compensation:			
Permanent positions:			
Civilian	$21,482,146	$22,968,452	$23,206,604
Military	2,787,829	2,828,127	2,910,576
Positions other than permanent	3,280,214	4,081,660	4,038,612
Other personnel compensation	183,239	62,871	222,758
Total personnel compensation	27,733,428	29,941,110	30,378,550
12 Personnel benefits:			
Civil service retirement contributions	1,463,773	1,565,993	1,599,330
Group life insurance contributions	80,951	87,201	89,740
Federal insurance contributions act taxes	65,228	68,937	76,075
Health benefits contributions	197,417	209,422	215,255
Employee suggestion awards	14,792	4,500	4,500
21 Travel and transportation of persons:			
Administrative travel	645,533	703,000	707,000
Travel of selectees	2,887,825	2,700,000	2,479,000
Rental of passenger vehicles	39,638	44,580	43,200
22 Transportation of things:			
Freight, express, and drayage	102,470	124,500	80,500
Rental of trucks	1,898	1,900	1,900
Parcel post (penalty indicia)	49,000	49,000	49,000
23 Rent, communications, and utilities:			
Communication services	602,634	651,920	681,700
Rents and utilities	70,657	87,787	245,000
Penalty mail	617,800	694,925	772,050
24 Printing and reproduction	212,039	182,300	201,300
25 Other services	113,052	162,285	138,000
26 Supplies and materials	283,338	237,740	254,900
31 Equipment	792,332	50,600	123,000
Total obligations	35,973,805	37,567,700	38,140,000

Mr. THOMAS. You show $38,140,000 for 1964; $37,567,700 for 1963 and $35,973,805 for 1962. It is going up all the time. The number of inductees over 5 years will average out about the same but as the General is quick to point out, only 15 percent of his total work is actually seeing that the manpower gets into the Army. It is the handling of the people after that which counts. Getting them in involves only about 15 percent.

FUTURE REGISTRANTS

The table on page 3 is worth looking at.

The following 10-year table shows the experience and projection of the number of new registrants in future years.

In 1962 it was 1,402,000. In 1963 it falls off. Why?

Colonel ILIFF. After we mobilized many people in the early 1940's the birth rate fell off and then it came back up.

Mr. THOMAS. But 1944 was still a shooting war year. In half of 1945 you were not in a shooting war.

General HERSHEY. 1945 is a little better. This is the fiscal year 1945.

Mr. THOMAS. When was the armistice in Europe, April of 1945? This is an interesting table.

General HERSHEY. That is right.

Mr. THOMAS. Pages 4 and 5 give the narrative on your entire program. Page 5 is the breakdown of your personnel and other objects.

MOTOR VEHICLES

Page 4 is a pretty good breakdown on your automobiles. Put your finger on that table showing motor vehicles. I think I located the table last night, but it did not quite give us the cost on it. I will read this into the record.

In fiscal year 1963, 17 vehicles are being replaced.

That is the present fiscal year.

For 1964—

the year we are now looking at—

another 22 are being replaced for the amount of $43,250. These are: (1) The replacement of a 1961 sedan assigned to the Director.

Is it not too early to turn that car in, General?

Colonel ILIFF. It has nearly 80,000 miles on it right now.

Mr. THOMAS. In 2 years' time? Where have you been driving it?

General HERSHEY. I have been to the west coast two or three times. An automobile is necessary, after all, if you are going around visiting headquarters.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. THOMAS (reading):

This vehicle is now well over the 60,000-mile replacement requirement.

You have six automobiles to replace those which have passed both the age and mileage requirements.

What I am getting at is, I do not know where you go to put 40,000 miles on your car in a year. Your chauffeur must drive it after you finish the day. He must drive it all night.

General HERSHEY. Are we talking about the other cars or the one I am driving?

Off the record.

Mr. THOMAS. You request 15 station wagons. Where is the table showing the number of cars you have all together and where is the table showing the overall costs of your automobiles? You set out here under "Supplies and materials" a cost of $283,000 for 1962, $237,000 for 1963, and then you jump up to $254,900. I wonder if some of your automobile expense is in here. You have "Rents, communications, and utilities"; "Transportation of things." You have rental of trucks, $1,900. Up here under "Travel" you have rental of passenger vehicles, $39,638 for 1962, $44,580 for 1963, and then $43,200 for 1964.

Pull together for us right quick in one place what your automobiles are costing, what you are paying the General Services Administration, what you are getting for your trade-ins, what you are paying for your new ones, what you are paying for your gasoline and oil, what you are paying for your storage, and so forth. At no point is it broken down and wrapped up in one figure. Can you do that for us right quick?

Colonel ILIFF. I will have to dig up those records, sir. I do not have the gas and oil separated out, nor do I have the cost of the equipment.

Mr. THOMAS. You can figure it out right quick from your records, can you not? Where is your budget officer? We want to get that information.

Colonel ILIFF. We can do that.

Mr. THOMAS. Where is your table showing all the automobiles?

Colonel ILIFF. We were instructed that that would not be a part of the budget this year.

Mr. THOMAS. What law changed that?

The CLERK. There was an amendment to the law last year which said that automobiles should not be shown in the budget.

Mr. THOMAS. What committee did that come from?

The CLERK. Government Operations.

Mr. THOMAS. We want it to show in your justifications. I found a long table in here, but it was not quite clear.

General HERSHEY. These three here, but it has mostly dashes in it.

Colonel ILIFF. We can reproduce the old table which will supply that.

Mr. THOMAS. These tables on pages 18, 19, and 20 are supposed to give some information, but very little. The general beat me to it by saying it is mostly dashes.

The cost of vehicle rental is here. For station wagons you have nothing. For automobiles other than limousines and heavy sedans, as the cost of vehicles rented you have $53,200 for 1964 against $44,580 in 1963. For limousines and heavy sedans, cost of vehicles rented, you have nothing.

Colonel ILIFF. We have only the one car in that class, and that is one we own.

Mr. THOMAS. Is that the one you have 80,000 miles on in 2 years?

Colonel ILIFF. Yes, sir.

COST OF SEDAN OPERATION

Mr. THOMAS. I cannot own and operate my old Ford, pay gas and oil and insurance for less than $125 a month. What does that Cadillac cost you?

General HERSHEY. It is not a Cadillac, sir. It is a Lincoln that they do not make any more.

(Off the record.)

General HERSHEY. They quit making our Premiere.

Mr. THOMAS. What does it cost you to operate it with the chauffeur and everything else—gasoline, oil, maintenance, repairs, and operation? It is bound to be $1,000 a month, is it not?

General HERSHEY. That sounds awfully high.

Mr. THOMAS. How far would that miss it?

General HERSHEY. I do not have enough information to dispute it. I suppose this month we have been 3,000 miles.

Mr. THOMAS. You said a while ago you could get a first lieutenant cheaper. You pay your chauffeur around $5,000 and other objects?

General HERSHEY. Overtime is what brings it up. When you go out meeting local boards and reserve officers, it is only at night. You do not work daytime. You go to the State headquarters at nights when you are out on the road.

Mr. THOMAS. Can you provide that information?

Colonel ILIFF. Yes, sir.

(The information supplied follows:)

1962 costs on heavy sedan assigned to the Director of Selective Service—Lincoln Premiere purchased August 1960 for $3,601.05

Fiscal year 1962 costs:	
Gas, oil, and tires	$1,338.39
Repairs and maintenance	827.36
Operating costs	2,165.75
Salary to driver (regular)	4,680.00
Salary to driver (overtime)	4,046.54
Total driver compensation	8,726.54
Car costs	10,892.29
Mileage:	
June 30, 1962	59,500
July 1, 1961	26,669
Miles used	32,831
Operating costs per mile (cents)	6.6
Gasoline used (gallons)	2,491
Average miles per gallon	13.2

FINANCIAL INFORMATION REQUESTED

Mr. THOMAS. Where are your green sheets on your personnel costs in the local boards? You have here salaries and expenses on pages 15 and 16. You have the green sheets there, but what does this cover? Which program is it?

Colonel ILIFF. That is the whole thing, sir.

Mr. THOMAS. We would like to have some specific information on your State headquarters. How many personnel do you have in your State headquarters and how many do you have in your local headquarters? Then how many do you have in your local boards? The information on your local boards is all right, but do you have civil service employees in your local boards? The answer is "No." Where are your civil service employees located? In the Washington office?

Colonel ILIFF. And the State headquarters.

Mr. THOMAS. Where are your green sheets on the Washington office and State headquarters?

Colonel ILIFF. Page 14, I think, will give you the breakdown by positions. That happens to be an orange sheet this year. They changed the color of the sheets.

Mr. THOMAS. You have total number of permanent positions, 5,430.

Colonel ILIFF. Down below, you find the average grade, and the full-time equivalent of other positions are part-time positions.

Mr. THOMAS. We are familiar with this table, but the table does not give the information we are looking for. We are trying to see the green sheet classification in your State headquarters and in the national headquarters.

Colonel ILIFF. It is all combined, sir. It was combined several years ago, and the Bureau of the Budget told us not to break it down any more. I can give you the numbers, if you like. Of course, up about grade 14——

Mr. THOMAS. You had better go to the Bureau of the Budget, Colonel, and let them apply for this money for you because, after all, these justifications are not for the use and benefit of the Bureau of the Budget, but are for the use and benefit of the Congress. You have given us very little usable information here. You go back to the Bureau of the Budget and tell them to get your money for you.

General HERSHEY. If we knew what kind of sheet you wanted made up, we would make it up.

Mr. THOMAS. We ask time and time again, every year, and every year we do not get it. You listen to the Bureau of the Budget rather than the committee on the information we want. We do not object to the Bureau of the Budget having the information they want, but we want what we want, rather than what they want us to have.

Colonel ILIFF. We want to give you what you want, sir.

Mr. THOMAS. We went into this last year, and you have not made any change from last year.

Colonel ILIFF. Last year, you asked for the number of people, not a breakdown by grade.

Mr. THOMAS. Let us adjourn the hearing, and you fix up your budget. When you get it fixed up, we will go into it again. You have given us very little information in here that we need. We went into this with you last year. Your budget is no improvement over the one last year. So you go back and spell out the information that the Congress wants, not what the Bureau of the Budget wants. We do not object to your giving them whatever they want, but we want you to give us what we want, and you have not given it to us.

General HERSHEY. Would it be unfair for us to get some understanding now of what——

Mr. THOMAS. If you will read last year's hearing and the hearing of the year before last, you will find out exactly what we want. We have asked you to break this down so we can use it. You give us a performance budget, which does not mean anything to us. It is the details we want.

General HERSHEY. We have a little problem of knowing what clothes to bring to get through the checkpoint. If we haven't the clothes to get us through there, we do not have a chance to go to the party. Do you see what I mean? I have always had difficulty with the Budget on my local board people. I generally have had difficulty with the Congress on the people above the local board. So, I got in through the first door by losing a lot of my local board people, and then I got over here and lost above my local board. So, I got nicked both places. It is perfectly all right. I like our Government. I do not move anyplace else. I am just pointing out some of the difficulties of some of us down here who are serving a couple of masters. I am perfectly willing to have the Budget be mammon over here.

Mr. THOMAS. We do not mind your serving the Bureau of the Budget, for that is their function, but we do not want the Bureau of the Budget to keep the committee and the Congress from getting the information we want.

General HERSHEY. That I perfectly well understand. I have no doubt about who represents the people of the United States as far as I am concerned, and never have. I know just exactly who represents the people of the United States.

Mr. THOMAS. Let us go back and try to strengthen the budget and spell out the details. We want to know about your travel. We want your personnel. We want your carryover. We appropriate so much money for so much travel. If you do not use it, we want to know what has happened to it. We want to know why your other objects have increased, and so forth and so on. Spell it out. You have a lot of categories there. We want to know about your automobiles, what they cost you, and what they cost to operate. You can strengthen that.

We will be in touch with you.

General HERSHEY. May I say, sir, that we not only have one pleasure, but apparently we are going to have a second one.

Mr. THOMAS. General, you are most convincing.

(After the hearing the following information was supplied for the record and no additional hearing was held.)

Passenger motor vehicles—Fiscal year 1962 costs

SEDANS

	Amount	Per mile
		Cents
45 at cost of	$57,529	
Less depreciation at end of 1961	34,866	
Value at start of year 1962	22,663	
Less depreciation 1962	11,224	
Value at end of 1962	11,439	
Costs, 1962—mileage, 526,792:		
Direct operating expense	12,598	2.39
Maintenance expense	4,019	.76
Total expense	16,617	3.15
Add depreciation 1962	11,224	2.13
Total cost	27,841	5.28

STATION WAGONS

		Cents
27 at cost of	$44,635	
Less depreciation at end of 1961	30,040	
Value at end of year 1961	14,595	
Less depreciation 1962	7,026	
Value at end of year 1962	7,569	
Costs, 1962—mileage, 220,085:		
Direct operating expense	5,973	2.71
Maintenance expense	1,922	.87
Total expense	7,895	3.59
Add depreciation 1962	7,026	3.19
Total cost	14,921	6.78

NOTE.—Depreciation is calculated on a flat 20 percent of original cost resulting in 5-year total depreciation. This is not an expense item in the budget but is furnished to show total costs. The costs on the heavy sedan are not included as this has been shown separately. (See page 77 of transcript.)

Pay raise cost and financing, fiscal year 1963, by project

	Payroll increase, object 11	Related costs, object 12	Postal increase, object 23	Total
Project 10	$39,670	$1,988	$3,500	$45,158
Project 20	163,925	8,780	10,500	183,205
Project 30	658,341	42,793	63,125	764,259
Project 40	374	24		398
Project 50	3,455	225		3,680
Total increases	865,765	53,810	77,125	996,700
From selectee travel				775,000
Balance to be financed				221,700
Authorized for supplemental				136,000
To come from other objects				85,700

Selectee travel

1962

Total appropriation	$37,085,000
Less obligated	35,973,805
Unobligated balance	1,111,195
Selectee travel:	
Authorized	3,736,000
Obligated	2,887,825
Unobligated balance	848,175
Unobligated from other objects	263,020

1963

Authorized	3,475,000
Allocated	2,700,000
Amount available for pay raise	775,000

PROJECT 10

Detail of personnel compensation

	1962 actual		1963 estimate		1964 estimate	
	Number	Amount	Number	Amount	Number	Amount
Grade 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	16,530	1	18,000	1	18,000
GS-16. $16,000 to $18,000: Division chief	1	15,775	1	17,500	1	17,500
GS-15. $14,565 to $17,925:						
Appeal board member	3	42,490	3	47,055	3	47,055
Assistant to director	4	58,820	4	62,100	4	62,100
Assistant general counsel			1	14,565	1	14,565
Chief legislative and liaison officer	1	14,705	1	15,525	1	15,525
Chief medical officer	1	14,705	1	15,525	1	15,525
Chief planning officer	1	14,705	1	15,525	1	15,525
Division chief	5	73,525	5	77,625	5	77,625
The adjutant	1	14,705	1	15,525	1	15,525
GS-14. $12,845 to $16,245:						
Administrative officer			1	14,120	1	14,120
Assistant division chief	6	77,940	6	83,870	6	83,870
Assistant general counsel	2	25,200	1	14,120	1	14,120
Assistant planning officer	1	12,990	1	14,120	1	14,120
Manpower officer	2	25,980	2	28,240	2	28,240
Regional field officer	5	64,950	5	70,600	5	70,600
GS-13. $11,150 to $14,070	29	331,295	29	355,470	30	366,620
GS-12. $9,475 to $11,995	7	65,545	7	70,735	7	70,735
GS-11. $8,045 to $10,165	3	25,800	5	45,260	5	45,260
GS-10. $7,290 to $9,495	7	53,585	5	41,595	5	41,595
GS-9. $6,675 to $8,700	6	41,250	8	58,125	10	71,475
GS-8. $6,090 to $7,935	9	57,420	7	49,600	4	31,330
GS-7. $5,540 to $7,205	22	133,155	23	147,585	25	158,665
GS-6. $5,035 to $6,565	29	159,210	29	169,135	29	169,135
GS-5. $4,565 to $6,005	21	107,580	20	105,380	20	105,380
GS-4. $4,110 to $5,370	8	35,890	10	45,020	10	45,020
GS-3. $3,820 to $4,830	8	31,340	6	24,755	5	20,935
GS-2. $3,560 to $4,505	3	11,760	2	8,590	1	5,030
Ungraded positions at hourly rates equivalent to less than $12,845	11	55,871	11	58,666	11	58,666
Total permanent	198	1,602,721	198	1,723,931	198	1,733,861
Deduct lapses	7	−42,839	3	−14,895	1	−2,343
Deduct excess civilian rates over military		−8,491		−56,184		−32,383
Deduct net decrease due to lower pay scales for part of year				−12,401		
Add net increase due to higher pay scales for part of year						18,165
Net permanent (average number, net salary): United States and possessions	191	1,551,391	195	1,640,451	197,	1,717,300
Positions other than permanent		2,043		2,000		2,000
Other personnel compensation:						
Regular pay above 52 week base						7,250
Overtime and holiday pay		5,602		6,000		6,000
Total personnel compensation		1,559,036		1,648,451		1,732,550

PROJECT 20

Detail of personnel compensation

	1962 actual		1963 estimate		1964 estimate	
	Number	Amount	Number	Amount	Number	Amount
Grade and ranges:						
GS-15. $14,565 to $17,925: State director	19	$278,225	19	$298,335	19	$298,335
GS-14. $12,845 to $16,245:						
Administrative officer	11	142,890	9	127,080	9	127,080
Deputy state director	21	26,670	21	296,520	21	296,520
State director	14	182,120	14	197,255	14	197,255
GS-13. $11,150 to $14,070	92	1,051,740	91	1,119,040	91	1,119,040
GS-12. $9,475 to $11,995	66	637,310	62	645,410	62	645,410
GS-11. $8,045 to $10,165	27	224,400	24	215,605	24	215,605
GS-10. $7,290 to $9,495	4	32,105	4	35,285	4	35,285
GS-9. $6,675 to $8,700	15	104,445	15	113,400	15	113,400
GS-8. $6,090 to $7,935	3	19,635	3	21,345	3	21,345
GS-7. $5,540 to $7,205	56	344,493	56	367,405	56	367,405
GS-6. $5,035 to $6,565	64	358,865	61	366,805	61	366,805
GS-5. $4,565 to $6,005	135	691,515	134	726,490	134	726,490
GS-4. $4,110 to $5,370	150	680,785	147	706,753	147	706,753
GS-3. $3,820 to $4,830	191	785,115	173	759,740	173	759,740
GS-2. $3,560 to $4,505	62	224,661	50	193,956	50	193,956
GS-1. $3,245 to $4,190	4	13,790	4	14,975	4	14,975
Ungraded positions at hourly rates equivalent to less than $12,845	8	26,752	8	27,773	8	27,773
Total permanent	942	6,068,516	895	6,233,172	895	6,233,172
Deduct lapses	95	−495,170	50	−247,023	13	−18,079
Deduct excess civilian rates over military		−47,225		−164,654		−106,006
Deduct net decrease due to lower pay scales for part of year				−60,183		
Add net increase due to higher pay scales for part of year						95,077
Net permanent (average number, net salary): United States and possessions	847	5,526,121	845	5,761,312	882	6,204,164
Positions other than permanent		65,078		86,357		75,000
Other personnel compensation:						
Regular pay above 52 week base						33,500
Overtime and holiday pay		789		26,300		
Territorial cost of living allowances		21,871		23,250		24,310
Total personnel compensation		5,613,859		5,897,219		6,336,974

PROJECT 30

Detail of personnel compensation

	1962 actual		1963 estimate		1964 estimate	
	Number	Amount	Number	Amount	Number	Amount
Local board auditors:						
GS–11. $8,045 to $10,165	1	$7,820	1	$8,310	1	$8,310
GS–10. $7,290 to $9,495	1	6,995	1	7,535	1	7,535
GS–9. $6,675 to $8,700	8	55,440	8	60,150	8	60,150
GS–8. $6,090 to $7,935	22	144,155	22	155,915	22	155,915
GS–7. $5,540 to $7,205	76	465,225	76	494,410	77	499,950
GS–6. $5,035 to $6,565	25	141,210	25	148,315	25	148,315
GS–5. $4,565 to $6,005	26	121,385	26	128,555	25	123,990
GS–4. $4,110 to $5,370	5	22,405	5	23,910	5	23,910
GS–3. $3,820 to $4,830	2	8,360	1	4,955	1	4,955
GS–2. $3,560 to $4,505	2	7,735	1	4,190	1	4,190
Ungraded positions at annual rates: Less than $12,845	4,134	16,821,246	4,134	17,421,975	4,134	17,741,224
Ungraded positions at hourly rates equivalent to less than $12,845	35	162,065	37	174,384	37	177,553
Total permanent	4,337	17,964,041	4,337	18,632,604	4,337	18,955,997
Deduct lapses	148	−634,101	45	−221,578	162	−792,786
Deduct net decrease due to lower pay scales for part of year				−16,210		
Add net increase due to higher pay scales for part of year						32,505
Net permanent (average number, net salary): United States and possessions	4,189	17,329,940	4,292	18,394,816	4,175	18,195,716
Positions other than permanent		3,213,093		3,993,303		3,961,612
Other personnel compensation:						
Regular pay above 52-week base						144,088
Overtime and holiday pay		10,578				
Territorial cost of living allowances		6,922		7,321		7,610
Total personnel compensation		20,560,533		22,395,440		22,309,026

Statement of proposed obligations for purchase and hire of passenger motor vehicles for the fiscal year 1964, Selective Service System

	Motor vehicles to be purchased		Old vehicles to be exchanged		Net cost of vehicles to be purchased	Old vehicles still to be used	Cost of hire of motor vehicles	Users and public purposes
	Number	Gross cost	Number	Allowance (estimated)				
Selective Service System: Salaries and expenses:								
Medium sedan	1	$3,000	1	$500	$2,500	----	----	To be used by the Director of Selective Service.
Automobiles	6	9,000	6	1,200	7,800	38	$43,200	To be used by officials at State headquarters for the purpose of visiting local boards within their several States and other official travel as required.
Station wagons	15	29,250	15	3,000	26,250	12	----	Used by officials in the several States for the purpose of visiting local boards and other official travel as required and to deliver supplies and equipment if necessary.
Trucks	----	----	----	----	----	17	1,900	Used in the various States for the hauling of mail, supplies, and equipment.
Do	----	----	----	----	----	1	----	Do.
Total	22	41,250	22	4,700	36,550	68	45,100	

KANSAS STATE UNIVERSITY LIBRARY MANHATTAN, KANSAS OCT 7 1963

MONDAY, JANUARY 21, 1963.

RENEGOTIATION BOARD

WITNESSES

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

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	2,232	2,017	2,276
	Positions other than permanent	7	18	18
	Other personnel compensation	7	24	41
	Total personnel compensation	2,246	2,059	2,335
12	Personnel benefits	155	153	164
21	Travel and transportation of persons	36	50	50
22	Transportation of things	24	3	3
23	Rent, communications, and utilities	59	50	50
24	Printing and reproduction	9	9	9
25	Other services	34	20	17
26	Supplies and materials	14	14	14
31	Equipment	33	8	8
41	Grants, subsidies, and contributions	1		
	Total obligations	2,611	2,366	2,650

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	281	220	230
Full-time equivalent of other positions	1	2	2
Average number of all employees	234	201	218
Number of employees at end of year	193	220	230
Average GS grade	9.4	9.4	9.5
Average GS salary	$9,155	$9,792	$10,008

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Executive direction	534	539	567
2. Staff operations	747	789	830
3. Renegotiation operations (field)	1,314	1,038	1,253
Total program costs, funded	2,595	2,366	2,650
Change in selected resources [1]	16		
Total obligations	2,611	2,366	2,650
Financing: Unobligated balance lapsing	279	80	
New obligational authority	2,891	2,446	2,650
New obligational authority:			
Appropriation	2,900	2,450	2,650
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (75 Stat. 353 and 76 Stat. 728) (−)	−9	−4	
Appropriation (adjusted)	2,891	2,446	2,650

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $8,000; 1962, $24,000; 1963, $24,000; 1964, $24,000.

Mr. THOMAS. Gentlemen, will the committee please come to order.

We have with us this afternoon our friends from the Renegotiation Board. It is certainly a pleasure to have with us the distinguished chairman, Mr. Hartwig; Governor Loveless, Board member; our former colleague, Mr. D'Alesandro, Board member; Mr. Burkhalter, Board member; Mr. Fensterstock, general counsel. Where is Mr. Fensterstock?

Mr. FENSTERSTOCK. Here, Mr. Chairman.

Mr. THOMAS. We are delighted to have you. We have Mr. Prentice, the assistant general counsel; and Mr. Haggerty, the Director of Administration. We are delighted to have you, Mr. Haggerty.

Also we have Mr. Semple, the Director of Assignments; and Miss Egbert, the budget analyst.

I notice you have a very fine budget here.

Mr. Chairman, do you or any of your staff have a prepared statement?

Mr. HARTWIG. Yes, Mr. Chairman.

Mr. THOMAS. Is anybody absent?

Mr. HARTWIG. We have a vacancy on the Board.

Mr. THOMAS. Who is not here this year?

Mr. HARTWIG. Mr. Stuart.

Mr. THOMAS. How long have you had the vacancy?

Mr. HARTWIG. Since December 31. Mr. Beaty of New Mexico has been nominated for the position.

In that connection, Mr. Chairman, I would like to exercise the privilege of introducing Mr. Burkhalter of Tennessee. This is his first appearance. He is a new member of the Board.

Mr. THOMAS. We are delighted to have you. What part of Tennessee are you from?

Mr. BURKHALTER. The northwestern part.

Mr. EVINS. He is an outstanding citizen of our State.

Mr. THOMAS. What did you do before you came here?

Mr. BURKHALTER. I was practicing law here for several years. I used to work for the Tennessee Valley Authority.

Mr. THOMAS. What age man are you?

Mr. BURKHALTER. 48.

Mr. THOMAS. Well, we are delighted to have you. We like to work with the Board. Our hearings are not too rigid. We like people to say what they think and give all the help they can give us. We think you folks do a tremendous job. Your functions are quite necessary and highly advisable.

When does the present act expire?

Mr. HARTWIG. June 30, 1964.

Mr. THOMAS. You have another year to go?

Mr. HARTWIG. Yes.

Mr. THOMAS. We note your workload is falling off a little bit. You use round figures of 8,000 cases and your carryover has been around 400. You certainly are disposing of your work.

In the last few years you have eliminated some of your regional offices. You have only two now.

Tell us about your activities, your headaches, your plans, and so on, generally.

Mr. JONAS. Mr. Chairman, will you yield?

Mr. THOMAS. Yes, Mr. Jonas.

Mr. JONAS. Is Mr. Loveless here?

Mr. LOVELESS. Yes.

Mr. THOMAS. What is your home State?

Mr. LOVELESS. Iowa.

Mr. THOMAS. What part of Iowa?

Mr. LOVELESS. Southeast Iowa.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. JONAS. He is a former Governor.

Mr. THOMAS. We are delighted to have you with us, Governor.

Go ahead, Mr. Chairman.

Mr. HARTWIG. I have a short opening statement, if I may read it.

Mr. THOMAS. Go ahead.

GENERAL STATEMENT

Mr. HARTWIG. Mr. Chairman and members of the subcommittee, it is my privilege, as Chairman of the Renegotiation Board, to appear before the subcommittee in behalf of the Board in support of its budget estimate for the fiscal year 1964.

Before summarizing the Board's 1964 financial requirements, I believe it may be well to review the renegotiation process briefly.

Under the Renegotiation Act, the Board does not conduct renegotiation on an individual contract basis, but reviews the profits realized by a defense contractor under all his renegotiable contracts and subcontracts during his entire fiscal year.

All defense contractors and subcontractors whose renegotiable sales exceed the statutory $1 million in a fiscal year must, for each fiscal year, file a detailed report with the Board which contains factual information and financial data. Because there is no penalty for nonfiling or delinquent filing, unless willful, the Board must take steps to insure that contractors discharge their filing responsibilities.

The reports received by the Board are examined by the headquarters Board in Washington. Because the statute exempts certain defense contracts and subcontracts from renegotiation, a careful evaluation of a contractor's exemption claims is made at headquarters to be certain that the claims have been properly asserted. If the examination or screening at headquarters shows that the profits are obviously not excessive, a clearance notice is issued to the contractor. When it appears that excessive profits may be present, the cases are assigned for renegotiation proceedings to one of the two regional boards, the eastern board in Washington or the western board in Los Angeles.

After the regional board has commenced renegotiation and obtained such additional information as is required, the regional board holds meetings with the contractor, after which it determines whether excessive profits have been realized and, if so, in what amount. The regional boards, by delegation, have final authority to conclude cases by agreement when the renegotiable profits are $800,000 or less. If in such a case the contractor does not accept a determination of excessive profits, he has a right to appeal to the headquarters Board. In cases where the renegotiable profits are more than $800,000, the regional boards do not have final authority but make recommendations which are reviewed by the headquarters Board.

Mr. THOMAS. That has been your procedure for several years, has it not?

Mr. HARTWIG. Yes, sir.

The Renegotiation Board, at headquarters, establishes policies for all operations and insures that they are carried out. The Board itself is responsible for the final decision in all cases not concluded at the regional board level. It reviews regional board determinations, secures further information, holds meetings with contractors and reaches final determinations of amounts of excessive profits by agreement or by order.

If a contractor does not agree with any final order of the Board he may seek a redetermination of the amount of his excessive profits in the Tax Court of the United States.

The Board's appropriation for fiscal 1963 was $2,450,000. Our request for 1964 is $2,650,000. The increase is due in part to the 10 additional positions budgeted for fiscal 1964 and in part due to the pay increases enacted last year by the Congress.

INCREASED WORKLOAD

The number of cases assigned to the regional boards will increase from 390 in fiscal 1962 to an estimated 550 in fiscal 1963. Current experience indicates that this estimate for 1963 will prove reasonably accurate. The Board estimates that the cases assigned to the regional boards for fiscal 1964 will increase to 600.

Mr. THOMAS. Are you anticipating that $2.5 billion increase in national defense spending?

Mr. HARTWIG. Yes, sir.

Mr. THOMAS. You will not get the flow back for 18 months. Excuse me, go right ahead.

Mr. HARTWIG. Yes. But, the projected increase in the Board's workload reflects the anticipated effect of increased expenditures already made out of prior appropriations for defense and space activities.

To perform effectively, the Board and the regional boards must maintain competent, balanced staffs. The staffs include a high ratio of trained and experienced personnel including business analysts, accountants, lawyers, and procurement specialists. Horeover, the Board must maintain its staff to cope with an increasing workload. This is what we are asking in requesting an appropriation of $2,650,000.

EXCESS PROFITS DETERMINED

From its organization under the 1951 act through the end of fiscal 1962, the Board made agreements or orders determining excessive profits in the total amount of $861,565,494 before Federal tax credit. Agreements and orders in process as of that date amounted to $3,937,359.

CASES APPEALED TO TAX COURT

Mr. THOMAS. How many cases were appealed to the Tax Court last year from your decisions?

Mr. HARTWIG. One determination made last year was appealed.

Mr. THOMAS. How much money was involved in that?

Mr. HARTWIG. $250,000.

Mr. THOMAS. Has the Tax Court heard the case yet?

Mr. HARTWIG. Oh, no. It may take years.

Mr. THOMAS. I thought under their new reorganization they were pretty current where each judge can decide a case.

How many cases did you have appealed the year before? That will be 1961.

Mr. HARTWIG. Ten determinations of the year before, 1961, have been appealed.

Mr. THOMAS. Where are you reading that from?

Mr. HARTWIG. From the annual report to Congress.

Mr. THOMAS. Tell your budget officer to include that in your justifications next year. There is more information in that than in your justifications. Go ahead.

Mr. HARTWIG. To follow out your question, since the Board has been in existence——

Mr. THOMAS. How many appeals did you have in 1961?

Mr. HARTWIG. Ten of the fiscal 1961 determinations.

Mr. THOMAS. And 1962?

Mr. HARTWIG. One.

Mr. THOMAS. Have the cases appealed in 1961 been adjudicated yet?

Mr. HARTWIG. Only one. There are cases pending involving fiscal year 1953.

Mr. EVINS. Ten years.

Mr. THOMAS. They try them de novo. How do you account for that long period, trial de novo?

Mr. FENSTERSTOCK. The 1953 year would not have been renegotiated by the board until a couple years after that and then the procedure in the Tax Court in any sizable case has been known to take as much as 4 or 5 years in the preparation and ultimate trial and disposition of the case.

Mr. THOMAS. How long does it take to try one of these cases appealed to the Tax Court?

Mr. FENSTERSTOCK. The trial itself may take several weeks but the preparation for the trial involves a great deal of time and effort.

Mr. THOMAS. Do you go back to the district for trial or are the trials held here in the District of Columbia? Where does the Tax Court sit?

Mr. FENSTERSTOCK. All over the country, in the various districts.

Mr. THOMAS. I assume the contractor wants to be heard in the district where he is located?

Mr. FENSTERSTOCK. Yes.

Mr. THOMAS. Excuse me, Mr. Chairman. Go ahead.

Mr. HARTWIG. To round out the answer to your question, 118 cases were taken to the Tax Court in the 11-year period and of the 118 the Court had disposed of 57 as of June 30, 1962, leaving 61 pending on that date.

In the 57 cases which the Tax Court decided the board's determinations were upheld in 35, in four cases the determinations were increased, and in 18 cases they were decreased.

Mr. THOMAS. That is certainly an outstanding record.

Mr. HARTWIG. These 118 cases litigated compares with 3,560 determinations of excessive profits made by this board. Only 118 of those 3,560 were litigated.

Mr. THOMAS. Go ahead.

FUNDS RESTORED TO THE U.S. TREASURY

Mr. HARTWIG. In addition, renegotiation proceedings with assigned contractors during that 11-year period disclosed voluntary refunds and price reductions to the Government amounting to $1,161,006,894. 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 restored to the Treasury by these three methods, from the inception of the board through June 30, 1962, aggregated $2,026,509,837.

Mr. Chairman, the Renegotiation Board has endeavored over the years to discharge its trust efficiently and economically. The record will also show that it has presented its budgetary requests to the appropriations committees of the Congress with faithful regard for these objectives.

I shall be pleased, of course, to the best of my ability, to answer any questions or supply any other information relating to the activities of the board which the subcommittee may desire.

Mr. THOMAS. That is a very excellent statement. We are always delighted to have you folks here.

Do any of your colleagues care to give us the benefit of their thinking? What about you, Governor Loveless, and our distinguished former colleague, Mr. D'Alesandro? Governor Loveless?

Mr. LOVELESS. I have been with the Board now almost 2 years, in another 3 or 4 weeks. I have the feeling we have as economical an operation as you can devise. I have been with Government for some period of time at other levels. While I was Governor I thought some of my agencies were not operating as economically as they might,

but it does take some pretty qualified people to sit across the table from and work with industry controllers and other company executives. I feel as though this budget is pretty sound. I think all things being equal this is an activity that is pretty necessary for the Government.

Mr. THOMAS. That is well said. What about you, Mr. D'Alesandro?

Mr. D'ALESANDRO. I substantiate what the chairman said. It is an economical budget. As you will recall, last year we voluntarily asked for a reduction of $400,000 in our budget. I think we have made some changes that help us expedite our cases rather than having a lot of cases on the shelf.

REDUCTION IN NUMBER OF FIELD OFFICES

Mr. THOMAS. You have two field offices, one in Washington, D.C., and one in Los Angeles. You formerly had five. Do you find you do your work as expeditiously with the two as you formerly did?

Mr. D'ALESANDRO. I think so.

Mr. THOMAS. Mr. Burkhalter, what about you?

Mr. BURKHALTER. I have not been around as long as the others but what impresses me about the Board's procedure is the fact we have been screening out a lot of cases that used to take a lot of time from the more important cases. I have studied the budget request and voted on it and share the opinion of the chairman, the Governor and Mr. D'Alesandro.

Mr. THOMAS. Mr. Evins, will you please work out this budget?

RECENT OPERATIONS OF THE BOARD

Mr. EVINS. Mr. Chairman, this agency has been noted in the past by the enemies it has made. A lot of people do not like the Renegotiation Board and they want to see it abolished. Are you being as vigorous in your work as you might be, in view of the enormous budgets we have? Are you really doing all you should do? Do you care to comment along these lines?

Mr. HARTWIG. I think the decline in the refunds, as we pointed out in the Annual Report to Congress, is due to a combination of factors. It has been a continuing trend since Korea. Cost-type contracts, as you know, in recent years have formed an increasing amount in the total picture, and cost type contracts show a smaller profit than other types that were prevalent during the Korean period. This increasing use of cost type contracts evidences the transition from airframe production to R. & D. on missiles. Generally contractors make more money on repetitive production contracts than on R. & D. contracts. This has a bearing on the 10-year picture.

In addition to that, we started out with an act of broad coverage in 1951. Since 1951 the jurisdiction of the Board has been curtailed by quite a number of exemptions and by the elimination of a number of agencies.

AGENCIES SUBJECT TO RENEGOTIATION ACT

Mr. EVINS. Will you detail the agencies that have been eliminated from your original jurisdiction. Will you read them into the record. I have on occasion introduced a bill or two to increase your jurisdiction.

These are agencies where formerly the contractors reported to the Renegotiation Board but do not at the present time?

Mr. HARTWIG. That is right. The year in which these agencies were eliminated by the Congress was 1956. The termination date of the coverage of the act insofar as these agencies are concerned was December 31, 1956. At that time the Department of Commerce was taken out of the act except for the Maritime Administration and the Federal Maritime Board, which are still subject to the act.

The Reconstruction and Finance Corporation was eliminated as well as the following:

Canal Zone Government, Panama Canal Company, Housing and Home Finance Agency, Federal Civil Defense Administration, National Advisory Committee for Aeronautics, Tennessee Valley Authority, U.S. Coast Guard, Defense Materials Procurement Agency, Bureau of Mines, U.S. Geological Survey, Bonneville Power Administration, Bureau of Reclamation, and the Federal Facilities Corporation.

Mr. EVINS. Now will you list the agencies presently subject to the act?

Mr. HARTWIG. The Department of Defense, the Department of the Army, the Department of the Navy, the Department of the Air Force, the General Services Administration, the Atomic Energy Commission, the National Aeronautics and Space Administration, the Maritime Administration, and the Federal Maritime Board.

Mr. OSTERTAG. You have enumerated the agencies not covered by the act and the agencies covered by the act, yet there is a broad area of agencies not mentioned in one category or the other.

Mr. HARTWIG. If I have not mentioned the agency, it is not covered. These are the only agencies covered.

Mr. FENSTERSTOCK. Mr. Ostertag, the first list was a list of those formerly subject to the act that are no longer subject to the act.

Mr. OSTERTAG. The agencies that have not been mentioned in one category or another were never under the act?

Mr. HARTWIG. That is right.

INCREASE IN WORKLOAD FROM SPACE AGENCY

Mr. EVINS. What is the percentage of contracts coming before the Board from these agencies? For instance, the Space Agency, what has been your activity in this field? It has a tremendous appropriation.

Mr. HARTWIG. We have yet to see the full impact of this appropriation because the contracts must be let and certain leadtimes are involved. I anticipate 1964 will be the year when we will see a more substantial impact from the increased space budget. As yet we have not seen too much of it but we are seeing some of it. The assignments to the field this year will be approximately 550. These are the hard cases. That is, 550 this year compared to 390 last year. The trend is upward. This is why we absolutely need this increase.

FIELD WORKLOAD

Mr. THOMAS. Let me see if I read your table correctly. The assigned cases for 1963 number 550?

Mr. HARTWIG. Yes.

Mr. OSTERTAG. From 390?

Mr. HARTWIG. Yes.

Mr. THOMAS. You will complete this year 550 cases and you are carrying over 460 next year?

Mr. HARTWIG. The workload is to be looked at this way——

Mr. THOMAS. So your hard cases cannot exceed 460, can they?

Mr. HARTWIG. The input to the field this year is estimated at 550. Our forecast is very accurate because in the first 6 months of this year——

Mr. THOMAS. Your table says a carryover of 460.

Mr. HARTWIG. Assuming we will complete 550 this year.

Mr. THOMAS. You will have completed 550?

Mr. HARTWIG. That is what we estimate this year.

Mr. THOMAS. Carried over to next year, 460. That is your total uncompleted workload of every type?

Mr. HARTWIG. Well, in the field, that is right.

Mr. THOMAS. You do not limit this to the field alone. Is this your entire workload?

Mr. HARTWIG. No.

Mr. THOMAS. This is a table of "Filings and Disposition."

Mr. HARTWIG. We also estimate that we will screen out at headquarters 3,450 out of 4,000 filings.

Mr. THOMAS. Is that with your carryover?

Mr. HARTWIG. At the beginning of this current fiscal year, July 1, 1962, we had a backlog of 456 in the field. We estimate that 550 new cases will be assigned to the field this year compared to 390 in fiscal year 1962 which indicates that the number of hard cases is increasing.

Mr. THOMAS. You project these figures in here for 1964, the same figures.

Mr. HARTWIG. Our work will increase in the field and that is why we ask for these additional people.

At this point I would like to point out that, while our forecast of 550 new cases going into the field is substantially accurate (because in the first 6 months of this year 271 were assigned to the field), the completions were only 196. This means that the field organization has fallen behind in disposing of this workload. Many new cases involve questions which require more thoroughgoing investigation.

PERSONNEL INCREASES REQUESTED

Mr. EVINS. Your work is of a nature which requires very skilled and competent personnel. You want to put one of these additional people in the headquarters office and nine in the field?

Mr. HARTWIG. The estimate is that all 10 will go in the field. We do not estimate we will add any at headquarters.

Mr. EVINS. I thought I saw in your justifications an increase of one in headquarters.

Mr. HARTWIG. Page 21.

Mr. EVINS. What about page 13?

Mr. HARTWIG. Page 13 shows 48 in 1963 and 48 in 1964, no increase.

Mr. EVINS. Positions actual column shows 149 for 1962, the estimate for 1963 is 96, and the estimate for 1964 is 106.

What is the average grade of the new employees you put on your staff?

Mr. HARTWIG. The average grade of the 10 new employees in 1964 will be GS–13 and GS–14.

Mr. EVINS. Are most of these accountants or lawyers?

Mr. HARTWIG. Most of them are accountants and business analysts, what we call renegotiators.

Mr. EVINS. Mr. Jonas, do you have any questions?

GUIDELINES FOR NEGOTIATIONS

Mr. JONAS. What kind of guidelines do you give your negotiators? Do you have a fixed profit you allow these contractors to make? What standards do you go by?

Mr. HARTWIG. There are no specific standards set forth in the act.

Mr. JONAS. I know there are none set forth in the act, but you must have some.

Mr. HARTWIG. No, I think if we devised a formula for any particular industry——

Mr. THOMAS. Why do you not put in the record the elements you are concerned with?

Mr. HARTWIG. The so-called statutory factors start out requiring that the Board give favorable recognition to the efficiency of the contractor; to the reasonableness of costs and profits——

Mr. JONAS. Stop right there. Elaborate on what you consider reasonable costs and profits.

Mr. HARTWIG. The reasonableness of costs and profits is best determined by making comparisons, comparisons of one company with another, comparisons of one company with a subindustry group of which that company is a member, comparisons of a company's costs and profits in the year under review with its past experience. Taking all of these into account you arrive at an informed judgment as to whether the cost or profit is reasonable.

Mr. JONAS. It is a matter of judgment, then?

Mr. HARTWIG. It is a matter of judgment, but more than that it is a judgment based to the best of our ability on comparisons.

Mr. OSTERTAG. In other words, circumstances alter cases?

Mr. HARTWIG. That is right, and it is very difficult to find two cases that are much alike.

Mr. THOMAS. Give the other elements involved.

Mr. HARTWIG. Net worth and capital employed. That factor, as you know, has been an important factor in the renegotiation of the airframe industry which has operated substantially in Government-owned plants. This was an important feature in the *Boeing* case decided by the Tax Court last year. So that factor is another factor to be taken into account.

Another factor is the extent of risk assumed. Many kinds of risk must be considered, of course, but the statute points to one risk in particular, the "risk incident to reasonable pricing policies." In that connection the Board maintains a liaison with the Defense Department, and we check with them to ascertain whether the prices under particular contracts were reasonable or whether the competition was effective, and so on. This enters into our judgment as to risk.

MEASURES OF PROFIT

Mr. OSTERTAG. Would you define profit for us?

Mr. HARTWIG. Do you want me to define the function of profit?

Mr. OSTERTAG. Profit, no doubt, is that ratio of return which is over and above the cost of production, or whatever expense incurred for that production.

Mr. HARTWIG. There are two or three, perhaps three, main measurements of profit. One is the sales ratio. One is profit in relation to net worth or investment, and still another is profit in relation to capital. These are ratios with which businessmen are familiar. Since we are applying a businessman's act, we look at these in renegotiation.

The procurement agencies are concerned with sales margins in the negotiation and pricing of contracts. The Board, in evaluating the reasonableness of a company's profit in a fiscal year, must also consider these other ratios.

Mr. OSTERTAG. But there is another factor, and that is excess profit. That is really the crux of what you are responsible for; is that it?

Mr. HARTWIG. Yes, sir.

Mr. OSTERTAG. So you determine what a reasonable profit happens to be before you determine what the excess might be.

Mr. HARTWIG. That is a very logical way to approach the problem. The renegotiation statute does not set forth a formula as to what is a reasonable profit. In fact the Board may not use a formula because this would be contrary to the intent of the act. Congress has decided that profit limitation by formula is too repressive.

DECELERATION OF PROFIT RATE

Mr. EVINS. You pointed out earlier that the percentages of profits have been lessening over the years. Yet the amount of Government projects and contracts has been increasing, and reports to you indicate the percentage of profit is lessening. What are the factors which bring this about? Is it increased labor costs? Is it the cost of materials? What are the factors?

Mr. HARTWIG. Another factor in recent years, as we pointed out in the annual report, was the effect of recessionary conditions prevailing during parts of 1957, 1958, and 1960. When those conditions prevail the situation becomes more competitive and prices become more reasonable.

Mr. EVINS. This board is not in a position to render judgment on whether or not there is a drag on the economy?

Mr. HARTWIG. That we are a drag?

Mr. EVINS. No, whether or not there should be a tax reduction.

Mr. HARTWIG. I would rather not express an opinion on that.

Mr. LOVELESS. I might say, if I may interject, and again to reiterate what Mr. Hartwig has said, the deceleration of profit rate has been brought about by risk-free type of contract which has been in effect, the cost-plus type of contract, with a stipulated type of fee, relatively risk free from industries' standpoint, with the cost guarantee feature. As a result there is a lower profit.

TYPES OF CONTRACTS

Mr. THOMAS. You mean by that, Governor, that a negotiated contract, not on a cost-plus basis, but one with a fee and the reverse of cost-plus, namely the lesser the cost the bigger the fee, is more desirable than competitive bidding and holding down costs?

Mr. LOVELESS. No.

Mr. THOMAS. Which type of contract do you look on with favor?

Mr. LOVELESS. The cost-type of contract we have experienced carried with it a lighter rate of fee than a risk-type of contract with penalties attached thereto.

Mr. THOMAS. The Board is in a better position to be an accurate judge of what type is the best type of contract for the use and benefit of the taxpayers, a negotiated contract or one where the brothers sharpen pencils and have open and competitive bidding. The Board has expressed a very decided opinion. I, for one, agree with it. The Board always has taken the position that it is far more economical to have open and competitive bidding. Is that the general concensus of the Board now?

Mr. HARTWIG. That is right.

Mr. LOVELESS. Yes, sir.

Mr. THOMAS. The majority of the contracts dollar-wise in the armed services are still negotiated.

Mr. D'ALESANDRO. That is right.

Mr. OSTERTAG. There are two types, either negotiated or cost-plus. Negotiated is competitive, is it not?

Mr. HARTWIG. Either negotiated or let in accordance with advertised procedures.

Mr. OSTERTAG. Do you deal with anything other than negotiated contracts?

Mr. HARTWIG. We deal with all contracts that are subject to the act. The line is not drawn between negotiated contracts and those which are let in accordance with formal advertising procedures except for construction contracts.

Mr. OSTERTAG. Then getting down to terms, the Renegotiation Board renegotiates what?

Mr. THOMAS. Any contract offered by these six agencies.

Mr. OSTERTAG. In other words, if it is something outside the category of a negotiated contract it is not a renegotiation, is it?

Mr. HARTWIG. It could be. As I said before, the exemption line in our act is not drawn between a negotiated contract and a contract let in acordance with advertised procedure, except in the case of construction contracts.

EXEMPTION OF CONSTRUCTION CONTRACTS

Construction contracts which are let in accordance with formal advertising are exempt from our act.

Mr. LOVELESS. The Corps of Engineers.

Mr. HARTWIG. This exemption applies only to construction contracts.

My general observation on this whole subject is that there is no substitute for effective competition, whether you have a negotiated contract or——

Mr. THOMAS. I don't want to put words in Mr. Jonas' mouth but he may object to letting the Corps of Engineers be excused on the basis of competitive bids. I know I would.

You deal with that subject often, Mr. Jonas. What is your opinion on it?

Mr. JONAS. Most of their contracts are let on a competitive bid basis. They occasionally will let a negotiated contract. We are of the opinion, however, there is no substitute for real competition.

PROFIT RANGES AND RATIOS

Mr. EVINS. What would be the average that the board has allowed as a reasonable profit? I know where there is a lot of risk you allow a larger profit. In other cases where there is a lesser amount of capital with less risk perhaps the profit percentage is less.

Would you care to tell the committee the ranges within which you make these allowances?

Mr. HARTWIG. It is very difficult to speak of ranges, Mr. Evins, when you appreciate that we deal with a vast variety of businesses in the first place; and, secondly, with a vast variety of different products and types of contracts.

Mr. EVINS. Off the record.

(Discussion held off the record.)

Mr. EVINS. You are a pretty liberal-minded board. There was one case where you found an excess of only $10 million and the Tax Court $13 million.

Mr. HARTWIG. Perhaps this would be more responsive to your question. I refer you to the information which the Board supplied the Joint Committee on Internal Revenue Taxation, which sets forth the various types of businesses which were renegotiated and the fiscal years involved, the sales and profits, and so on.

Mr. EVINS. Give us some examples for the record.

Mr. HARTWIG. All right. Here is primary metal industry, 1954; Board's determination of excessive profits $107,000, in a case where sales were $788,000 and profits $249,000.

After the Board's determination the sales were adjusted to $671,000 and the profit to $141,000, adjusting the sales percentage before renegotiation from 32 percent to 21 percent and the percentage of return on net worth from 355.7 percent to 202.9 percent. That is a case where you can see approximately one-half of the profit dollarwise was determined to be excessive.

Some of these figures must be taken with a certain amount of caution, because, as you know——

Mr. EVINS. Do you have the figures of the Boeing case there? You mentioned that off the record. Give us an example or two in the aircraft industry.

Mr. HARTWIG. Let us take something at random here. There is a company listed as No. 67. In the year 1955 sales as found by the Board amounted to $876,904,000 of renegotiable sales, $63,707,000 of profit. The Board's determination for excessive profits amounted to $6,520,000, leaving adjusted sales of $870 million and profits of $57 million. The sales margin before the refund was 7.3 percent, and the Board left the contractor with 6.6 percent.

The effect of the refund was to reduce the return on net worth from 57.6 percent to 51.7 percent.

I shall just pick out another one here, No. 70.

Mr. EVINS. Are each of these airframe manufacturers to which you refer now, these number-designated companies?

Mr. HARTWIG. Yes.

Mr. EVINS. Is that a device to set up separate corporations for bookkeeping purposes?

Mr. HARTWIG. No; these were numbered by us so that the names of the companies would not be disclosed.

Mr. OSTERTAG. Does that indicate 7 percent is excessive profit?

Mr. HARTWIG. That was the effect of the refund in that case.

Mr. JONAS. That was the effect of your decision?

Mr. HARTWIG. That was the effect on that ratio. Of course, the effect on the net worth ratio is to say 57 percent was excessive, if that is the conclusion you wish to draw.

When you take into account these other factors which cannot be set forth statistically——

Mr. EVINS. Let us have one more example in the record and then go ahead.

Mr. HARTWIG. Here is No. 72. In 1955 the sales were $282,579,000, profit $22,236,000. The Board's determination of excessive profits amounted to $2,979,000, which left the contractor with 6.9 percent of sales as against 7.9 percent prior to renegotiation, and which reduced the percentage of return on net worth from 47 percent to 41 percent. You understand that this is before taxes.

Mr. OSTERTAG. This "before taxes" is a good point because, after all is said and done, if this profit had remained there the Government would reap a certain portion of that in any event in corporate taxes.

Mr. HARTWIG. 52 percent.

REDUCTION OF PROFITS

Mr. OSTERTAG. Mr. Chairman, the psychological, or the actual effect, is this: When a corporation or a contractor has to face the knowledge that his profit, when it extends beyond a reasonable point, will be subject to a renegotiation, has he any means by which he might reduce that profit to keep it within a reasonable point and yet gain the benefit of it through one form or another?

Mr. HARTWIG. He can make voluntary refunds and reduce his prices. As a matter of fact, that was the figure that I recited in my opening statement. We have noticed in filings with the Board through the 11-year period refunds to the Government, voluntary refunds, of over $1 billion.

Mr. OSTERTAG. I didn't mean refunds or in the form of return to the Government, but in the form of absorbing it in some way to their benefit, say, for example, employees, or other means which would raise the expense.

Mr. EVINS. They do that already. They have that pretty fat in the first place.

Mr. JONAS. Bonuses, and so forth?

Mr. OSTERTAG. Anything.

Mr. HARTWIG. If we saw any profligate expenditures we would take that into account. A high-cost producer does not fare as well with the Board as a low-cost producer. In fact, the statute requires that we take this into account.

Mr. OSTERTAG. The big part of your business comes in the field of defense?

Mr. HARTWIG. Yes, entirely within the field of defense and space.

Mr. OSTERRTAG. You mentioned that the statute exempts certain defense contracts or subcontracts. Where is the line of statutory exemption? Is that the size of the contract? Is that the only exemption?

Mr. HARTWIG. No, first of all we must remember that this Board reviews the overall renegotiable sales and profits during a fiscal year of a company. Some of these companies may have 100 contracts running along contemporaneously. We pick up the receipts and accruals on a fiscal year basis as they are reported for tax purposes. We allow those costs which are deductible for tax purposes. We do not renegotiate individual contracts. This must be understood very clearly at the start.

Then the statute provides for a $1 million floor. In other words, if renegotiable receipts and accruals in a fiscal year are $1 million or less the Board cannot renegotiate. We can only renegotiate those companies which, in a fiscal year, have more than $1 million of business with the Government subject to the act.

There is quite a variety of exemptions which serve to reduce the contractor's renegotiable business subject to the act.

Mr. OSTERTAG. What percentage is exempt out of the total?

Mr. HARTWIG. This is a very difficult figure to compute. Our act covers not only prime contracts but subcontracts. These exemptions apply not only to prime contracts but to subcontractors down the line, down the contract chain.

I have tried myself to find out what that figure is and it is very difficult to pin down.

RELATION TO GAO ACTIVITY

Mr. OSTERTAG. Is there any relationship between the General Accounting Office and the Renegotiation Board as to operations and determinations of contract figures?

Mr. HARTWIG. We are generally familiar with what the General Accounting Office is doing, and in those cases where, as you know, the General Accounting Office alerts the Congress in its reports, cases of overpricing and other cases where they have objection, we have a procedure set up whereby we flag copies of those reports for consideration in connection with the renegotiation of the contractor.

JUSTIFICATION OF THE ESTIMATE

Mr. EVINS. Let us place some of this material in the record. Insert pages 4 and 5, the table on page 6, program review on pages 8, 9, and 10, and the general statement on monetary results on page 12. Also insert pages 13 through 15, the field operations on pages 21 and 22, and the other objects on page 23.

(The pages referred to 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 March 23, 1951, and as amended September 1, 1954, August 3, 1955, August 1, 1956, September 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 program.

OPERATION UNDER THE ACT

The Renegotiation Board reviews the overall profits of a contractor on his defense contracts during the contractor's fiscal year. Renegotiation is conducted on the basis of total receipts or accruals from all defense 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

	1962 actual	1963 estimate	1964 estimate
1. Executive direction	$534,814	$539,000	$567,000
2. Staff operations	748,801	789,000	830,000
3. Renegotiation operations (field)	1,327,583	1,038,274	1,253,000
Total obligations	2,611,198	[1] 2,366,274	2,650,000

[1] Reflects transfer of $3,726 to GSA for additional Los Angeles rental costs.

Summary of man-year requirements

	1962 actual	1963 estimate	1964 estimate
1. Executive direction	48.1	46.6	47.0
2. Staff operations	68.0	70.4	72.0
3. Renegotiation operations (field)	118.0	84.0	98.6
Total man-year requirements	234.1	201.0	217.6

PROGRAM REVIEW

Workload

The Renegotiation Board administers the Renegotiation Act of 1948, the Renegotiation Act of 1951, as amended and extended through June 30, 1964, and in addition, has some responsibilities in connection with the Renegotiation Act of 1943. During the 6 fiscal years from 1957 through 1962 the volume of renegotiable sales contained in above the floor filings averaged $27 billion a year.

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 a card 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 detailed breakdown of the Board's workload by fiscal years is presented in the following two tables: Table I summarizes the estimated filings by contractors' fiscal years and table II indicates the estimated receipt and disposition of such filings by the Renegotiation Board in Government fiscal years.

TABLE I.—*Estimated filings by contractors with fiscal year ending in—*

	Years under prior acts	1951 through 1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	Total
Floor	297	150,080	16,000	16,000	13,100	11,100	10,000	8,000	8,000	8,000	8,000	8,000	256,577
Above floor	1,763	51,485	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	93,248
Total	2,060	201,565	20,000	20,000	17,100	15,100	14,000	12,000	12,000	12,000	12,000	12,000	349,825

These figures represent the number of contractors who will file reports on renegotiable business they transacted in these fiscal years, but do not indicate the number of filings received in headquarters in these fiscal years. The number of filings received in headquarters in the various Government fiscal years is indicated in table II on the following page. Contractors are not required by the act to file reports with the Board until the first day of the fifth month after the close of their fiscal years, causing a timelag of 4 months. For example, a contractor whose fiscal year ends December 31, 1962, will have until May 1, 1963, to file his report with the Board.

TABLE II.—*Filings and dispositions, by Government fiscal years*

	Actual						Estimate					Total
	Fiscal years 1952–57	Fiscal year 1958	Fiscal year 1959	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Fiscal year 1965	Fiscal year 1966	Fiscal year 1967	
Floor	143,167	16,704	18,363	13,445	9,344	8,106	8,000	8,000	8,000	8,000	8,000	249,129
Above floor	50,297	4,471	4,005	3,974	3,717	3,862	4,000	4,000	4,000	4,000	4,000	90,326
Total	193,464	21,175	22,368	17,419	13,061	11,968	12,000	12,000	12,000	12,000	12,000	339,455
Screened out	32,001	3,288	2,786	2,977	2,786	3,228	3,450	3,400	3,400	3,400	3,400	64,116
Assigned	21,118	1,136	1,161	1,103	926	390	550	600	600	600	600	28,784
Backlog	0	[1] 2,039	1,598	1,359	1,112	739	460	460	460	460	460	
	21,118	3,175	2,759	2,462	2,038	1,129	1,010	1,060	1,060	1,060	1,060	
Completed	18,922	1,577	1,400	1,350	1,299	669	550	600	600	600	600	28,167
Forwarded to next year	[1] 2,196	1,598	1,359	1,112	739	460	460	460	460	460	460	

[1] Discrepancy between these figures (of 157) is due to reporting, in earlier years, of completions on a case basis (often combining 2 or more assignments) instead of an assignment basis.

Refund determinations.—As of June 30, 1962, the regional boards had completed 25,217 assignments out of a total of 25,834. From the date of its establishment in 1951 through June 30, 1962, the Board determined excessive profits in a total amount of $861,565,494. In addition, agreements and orders to process as of June 30, 1962, amounted to $3,937,359. Further, as of the same date, contractors assigned for renegotiation had made voluntary refunds and price reductions in the amount of $1,161,006,984, which action can be attributed to the existence of the Renegotiatinn Acts. No figures of voluntary refunds or price reductions are available for contractors below the floor. In tabular form the monetary results of renegotiation are presented below:

Monetary results of renegotiation activity under the Renegotiation Acts of 1948 and 1951

Agreements and orders completed:	
1943 act	$2,610,000
1948 act	30,575,470
1951 act	828,380,024
Subtotal	861,565,494
Interim prepayments and agreements and orders in process	3,937,359
Total agreements and orders	865,502,853
Add: Voluntary refunds and price reductions disclosed in renegotiation proceedings	1,161,006,984
Total	2,026,509,837

The total of refund determinations made through June 30, 1962, amounted to $861,565,494, while through the same date the Board obligated $38,049,878 for administrative expenses.

PERSONNEL COMPENSATION EXPENSES

1. Executive direction

	1962 actual		1963 estimate		1964 estimate	
	Positions	Average employment	Positions	Average employment	Positions	Average employment
Office of the Board	21	20.5	21	20.5	21	21.0
Office of the Secretary	4	3.6	3	3.0	3	3.0
Office of the Economic Adviser	3	1.6	3	2.6	3	2.6
Office of Administration	25	22.4	21	20.5	21	20.4
Total	53	48.1	48	46.6	48	47.0

The Renegotiation Board, a statutory board of five members, is responsible for the general administration of the Renegotiation Act. The Board establishes policies for all renegotiation operations, and is responsible for the final action in all renegotiation cases. The Secretary serves as an assistant to the Board, develops and schedules agenda for Board meetings, advises contractors of Board decisions, and acts as recording officer for formal meetings. The Economic Adviser conducts economic studies, analyses, and surveys, and assists the Board in the formulation and development of policies. The Director of the Office of Administration is responsible for the internal administration and management functions of the Board, including security, budget, personnel and fiscal operations, reports and forms control, travel, procedures, dissemination of information, and office services.

2. Staff operations

	1962 actual		1963 estimate		1964 estimate	
	Positions	Average employment	Positions	Average employment	Positions	Average employment
Office of Assignments	32	25.9	30	28.1	30	28.0
Office of Accounting	11	10.7	11	10.0	11	10.8
Office of Review	23	20.1	23	21.5	23	21.4
Office of General Counsel	13	11.3	12	10.8	12	11.8
Total	79	68.0	76	70.4	76	72.0

The headquarters staff assists the Board in the formulation of policy, gives technical guidance to and helps coordinate the activities of the field organization, and performs certain steps in the processing of cases. Reports made by contractors are received in Board headquarters for examination and possible assignment for processing in the field.

Office of assignments

	1962 actual	1963 estimate	1964 estimate
Positions	32.0	30.0	30
Average employment (man-years)	25.9	28.1	28

The Office of Assignments maintains a mailing list of contractor and subcontractor names which it has obtained through procurement lists from the agencies named in the act, through answers to questions included, at the request of the Board, in both the Federal corporation income tax returns and Federal partnership information returns and through miscellaneous sources. This list includes some 15,000 names of companies and persons to whom the Board annually sends letters of preliminary inquiry transmitting instructions, information, and reporting forms. The contractors' reports are received by the Office of Assignments where they are examined for acceptability, searched for subsidiary, affiliated or controlled companies, recorded, and reviewed to separate those indicating a total of renegotiable business below the statutory minimum from those above such figure. Reports which indicate renegotiable business in excess of the applicable "floor" are examined for completeness by the Office of Assignments and when ready for further processing are forwarded through the Office of Accounting to the Office of Review for screening. Appropriate examination is also made of below-the-floor filings.

In addition to its responsibility for the securing and examination of filings, the Office of Assignments acts as the control point for all assignments which are made to the regional boards for processing and acts as liaison with the Internal Revenue Service in obtaining tax information used in the administration of the act.

3. Renegotiation operations (field)

	1962 actual	1963 estimate	1964 estimate
Positions	149.0	96.0	106.0
Average employment	118.0	84.0	98.6

Field activities are divided between two regional boards. The Board has set a field production goal of 600 completed assignments for fiscal year 1964. Estimated figures on our field workload for the fiscal year 1964 are as follows:

New assignments to be received during fiscal year	600
Backlog carried over from previous year	460
Workload	1,060
Estimated completions during fiscal year	600
Forwarded to next year	460

While all assignments handled in the field do not involve excessive profits, nevertheless, since the headquarters screening process eliminates the obvious cases of nonexcessive profits, the majority of assignments handled in the field require detailed analysis and represent the hard cases.

The regional boards develop accounting, financial, and performance data concerning the contractors' business, make plant visits and conduct special studies where necessary, and confer with the contractors' representatives to secure additional data. The regional boards have been delegated authority to determine excessive profits and make final agreements in those cases where the renegotiable profit of the contractor, before taxes, does not exceed $800,000. In other assigned cases, the regional boards make preliminary determinations and recommend disposition of the cases to the statutory board.

Regional boards also perform various other functions on behalf of the statutory board. These include acting as liaison in their respective regions by assisting in securing and completing statutory filings required by the act, preparing special accounting agreements, developing information for the processing of exemptions, and securing other information and data as instructed by the Board on these and other matters in which decisions are made by the Board. Regional boards also consult with and advise contractors and subcontractors regarding accounting requirements, legal matters, and compliance with the act and regulations.

EXPLANATION OF ESTIMATES FOR OTHER OBJECT CLASSES OF EXPENDITURES

12 Personal benefits:

1962 actual	$154,440
1963 estimate	153,000
1964 estimate	164,000

This object class includes employer's share of contributions as required by law to several employee benefit programs. The fiscal year 1964 estimate of $164,000 is composed of these items: Employees' life insurance, $8,000; health benefits, $11,000; retirement, $144,000; and FICA, $1,000.

21 Travel and transportation of persons:

1962 actual	$36,042
1963 estimate	50,000
1964 estimate	50,000

It is estimated that $50,000 will be required in fiscal year 1964 to provide for necessary trips to the plants and offices of contractors by operating personnel, travel by members of the field organization to headquarters in connection with renegotiation hearings and appeals, and for staff supervision.

The Board maintains a tight control over the use of travel funds. All requests for travel are reviewed by a central authority in each region and in the headquarters. A system of scheduling is followed to insure the mose efficient use of the Board's travel funds and manpower.

An estimate of $1,000 is included to cover GSA motor pool charges to the agency.

22 Transportation of things:

1962 actual	$23,561
1963 estimate	3,000
1964 estimate	3,000

This estimate of $3,000 provides for express shipments and for movement of household goods.

23 Rent, communications, and utilities:

1962 actual	$58,926
1963 estimate	50,000
1964 estimate	50,000

This estimate of $50,000 for fiscal year 1964 covers communications services, which consist of telephone, teletype, and telegraph services, and cost of postage. In addition to local telephone services in each of the regional boards, extensive communications services are required to tie together the field organization with its wide geographical distribution and the Washington headquarters. Wherever possible, savings in travel funds are made by communicating with contractors by letter, telegram, or telephone, in that order of precedence.

24 Printing and reproduction:

1962 actual	$9,210
1963 estimate	9,000
1964 estimate	9,000

Included in this estimate of $9,000 for 1964 are provisions for the printing of forms, reports, administrative manuals, and guides and the purchase of regulations, business reports, and special financial data. All duplicating work for the agency is also included under this classification.

25 Other services:

1962 actual	$33,820
1963 estimate	20,000
1964 estimate	17,000

The estimate of $17,000 for 1964 includes $7,700 for 20 security or loyalty investigations. The remainder is required for such expenses as repair and maintenance of equipment, reporting services, moves, relocations, and building alterations.

26 Supplies and materials:

1962 actual	$14,346
1963 estimate	14,000
1964 estimate	14,000

The request of $14,000 covers necessary office supplies at all locations of the board.

31 Equipment:

1962 actual	$33,438
1963 estimate	8,000
1964 estimate	8,000

An estimated $8,000 is required for 1964 to provide for essential replacement of such items as office machines, typewriters, and furniture.

41 Grants, subsidies, and contributions:

1962 actual	$1,000
1963 estimate	-----
1964 estimate	-----

This amount was payable to the Council of the Administrative Conference, established under Executive Order 10934.

Mr. EVINS. Travel expenses are estimated to be about the same. Personal benefits are up.

COMPUTER SERVICES

Do the IBM people try to sell you all this expensive machinery at all times?

Mr. HARTWIG. We are instituting a statistical program, and are availing ourselves of the services of the Veterans' Administration which has large computers. Our operation does not justify our spending money to install our own computers.

Mr. EVINS. My objection to the machinery is that after you buy it you have to pay them a royalty to maintain it.

If you bought it outright it would be yours, and that should be it. I don't like to put them on the payroll after you buy the machinery.

Anything else, Mr. Chairman?

VOLUNTARY REFUNDS

Mr. THOMAS. I have two or three minor questions. For the fiscal years 1961–62–63 what was the amount voluntarily returned?

Mr. HARTWIG. In 1961 the amount of voluntary price reductions and refunds approximated $31.5 million.

Mr. THOMAS. What was the figure for 1962 and what is it to date for 1963?

Mr. HARTWIG. For 1962 the amount was——

Mr. THOMAS. Was it in your statement?

Mr. HARTWIG. $17,800,000.

In 1963 to date, and we are in the first 6 months of 1963, it was $15,038,231.

PERSONNEL AND SALARY INCREASES

Mr. THOMAS. Your personnel level increases from 220 to about 230, an increase of 10. That is in anticipation of some national defense business which may or may not materialize, but if it does materialize it certainly will not affect you in less than 18 months, and a better guess would be 2 years.

What was your cost for increase in pay?

Mr. HARTWIG. Pay increase cost was $109,000.

Mr. THOMAS. How much of that did you absorb?

Mr. HARTWIG. All of that.

Mr. THOMAS. What is your estimated unexpended balance for this year?

Mr. HARTWIG. $80,000 as of this moment.

At the rate we are recruiting we may have to tap that balance. Mr. Chairman, we have to stay current and we have to meet this increase—I wish to emphasize that—in the number of hard cases that are beginning to come in at this time.

Mr. THOMAS. Normally I follow everything you say but I cannot follow you on your hard cases.

I understand what you are talking about but your tables don't bear it out.

Mr. HARTWIG. For example, last year, when we were able to have this very substantial reduction in the field workload, as you recall, which enabled us to come in voluntarily and ask for a cut, the screening process——

Mr. THOMAS. You had an unexpended balance of around $100,000 on top of that, then. You anticipate only $80,000 this year. You run an economical shop and we want to commend you. We are not fussing with you.

Mr. JONAS. We don't understand why you need these 10 extra people though.

Mr. HARTWIG. I am trying to state it in different ways as clearly as I can.

The difference between the $2,450,000 allowed this year and the $2,650,000 for which we are asking next year in large part is due to the pay increase over which we have no control.

Let us put it this way——

Mr. THOMAS. You absorbed it, the pay increase this year?

Mr. HARTWIG. That is right, $109,000. But next year that same pay increase will be in effect for the full fiscal period. It will cost, rather than $109,000, $168,000.

Then on top of that, as of January 4 next year, there will be another pay increase of $58,000.

Mr. THOMAS. What is the total, around $220,000?

Mr. HARTWIG. $226,000.

Mr. THOMAS. This does not include the executive pay raise does it?

Mr. HARTWIG. No, sir. This is the two-step civil service increase.

Mr. THOMAS. We are in favor of all of it. We are in favor of the executive pay increase, too, and I speak for myself. I don't refer to Members of Congress but the executive pay increase. This is the biggest Government on earth. In private industry people are doing the same jobs that our top people here are doing. The salary is way out of line. We cannot expect people in Government to do the same thing, and with more responsibility, at less than half the salary. This applies to agency heads, Cabinet heads, and in your 16, 17, and 18 supergrades.

We would save money by increasing those salaries, but that is immaterial here.

USE OF ADDITIONAL PERSONNEL

Mr. BOLAND. Where do increases in personnel come? In what shop do they occur?

Mr. HARTWIG. Accounting and renegotiation in the field. On the average these have to be highly trained people, GS–13's and GS–14's.

Mr. BOLAND. What are you going to do with the additional 10 employees?

Mr. JONAS. They are all in the field.

Mr. HARTWIG. That is right, and they are needed in the field. We already see an increase in the number of cases assigned to the field this year. It will increase from 390 to 550, and in 1964 there will be at least 50 more.

Mr. JONAS. I don't recall your saying where they would go, Washington or Los Angeles.

Mr. HARTWIG. It is difficult to forecast the region.

Mr. JONAS. You have not decided the region they would be in?

Mr. HARTWIG. The additional personnel?

Mr. JONAS. Yes.

Mr. HARTWIG. Some in California and some in the eastern board.

TRAVEL AND TRANSPORTATION

Mr. THOMAS. What about your travel? That was $36,000 in 1962, $60,000 this year, and $50,000 next year.

How much have you spent this year to date?

Mr. HARTWIG. We have been spending an average of about $4,000 a month.

Mr. THOMAS. That is with the increased per diem allowance?

Mr. HARTWIG. Yes.

Mr. THOMAS. How many automobiles do you have?

Mr. HARTWIG. Two automobiles.
Mr. THOMAS. Do you have any Cadillacs?
Mr. D'ALESANDRO. No. A station wagon.
Mr. HARTWIG. And a Plymouth.
Mr. THOMAS. Off the record.
(Discussion held off the record.)

TOTAL APPROPRIATIONS AND RESTORATIONS

Mr. EVINS. Do you have the total figure appropriated by your board since it was started?
Mr. HARTWIG. $38 million.
Mr. EVINS. You say you have received $861,565,494 in the way of mandatory refunds, plus $1,161 million in price reductions, a total of $2,026 million as compared with the $38 million appropriation cost of your agency?
Mr. HARTWIG. That is right.
Mr. EVINS. I have always been impressed with the importance of this Board.
Mr. THOMAS. Further questions, gentlemen?
(No response.)
Mr. THOMAS. It is always nice to have you here. We are proud of all of you. You do a very excellent job.

TUESDAY, JANUARY 22, 1963.

FEDERAL TRADE COMMISSION

WITNESSES

PAUL RAND DIXON, CHAIRMAN
SIGURD ANDERSON, COMMISSIONER
PHILIP ELMAN, COMMISSIONER
A. LEON HIGGINBOTHAM, JR., COMMISSIONER
JOHN V. BUFFINGTON, ASSISTANT TO CHAIRMAN
JOHN N. WHEELOCK, EXECUTIVE DIRECTOR
FRANK C. HALE, PROGRAM REVIEW OFFICER
WILLIAM P. GLENDENING, COMPTROLLER
JOSEPH W. SHEA, SECRETARY
JOHN A. DELANEY, DIRECTOR, OFFICE OF ADMINISTRATION
JAMES McI. HENDERSON, GENERAL COUNSEL
CECIL G. MILES, ASSISTANT DIRECTOR, BUREAU OF RESTRAINT OF TRADE
GALE P. GOTSCHALL, ASSISTANT TO DIRECTOR, BUREAU OF DECEPTIVE PRACTICES
HENRY D. STRINGER, DIRECTOR, BUREAU OF TEXTILES AND FURS
SAMUEL L. WILLIAMS, DIRECTOR, BUREAU OF FIELD OPERATIONS
BRYAN H. JACQUES, DIRECTOR, BUREAU OF INDUSTRY GUIDANCE
WILLIAM F. MUELLER, DIRECTOR, BUREAU OF ECONOMICS
JOSEPH J. GERCKE, CHIEF, DIVISION OF COMPLIANCE, BUREAU OF RESTRAINT OF TRADE
FREDERICK IRISH, CHIEF, DIVISION OF SCIENTIFIC OPINIONS, BUREAU OF DECEPTIVE PRACTICES
JULIAN W. SNYDER, ASSISTANT COMPTROLLER

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	7,818	9,476	10,589
	Positions other than permanent	32	25	25
	Other personnel compensation	73	72	142
	Total personnel compensation	7,923	9,573	10,756
12	Personnel benefits	583	703	790
21	Travel and transportation of persons	516	615	695
22	Transportation of things	21	22	22
23	Rent, communications, and utilities	179	241	283
24	Printing and reproduction	40	100	100
25	Other services	106	115	122
	Services of other agencies	14	9	10
26	Supplies and materials	121	182	170
31	Equipment	171	80	80
	Total costs	9,675	11,640	13,028
	Unfunded adjustments	—30		
	Change in selected resources	369	—57	
	Total obligations	10,014	11,582	13,028

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	1,072	1,178	1,268
Full-time equivalent of other positions	4	3	3
Average number of all employees	990	1,153	1,239
Number of employees at end of year	1,126	1,180	1,260
Average GS grade	9.1	9.2	9.0
Average GS salary	$7,958	$8,449	$8,397

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Antimonopoly:			
(a) Investigation and litigation	3,856	4,629	4,924
(b) Economic and financial reports	644	716	880
(c) Trade practice conferences, industry guides, and small business	143	176	246
(d) Compliance investigations for Attorney General	627	935	975
Deceptive practices:			
(a) Investigation and litigation	2,435	2,976	3,253
(b) Trade practice conferences, industry guides, and small business	286	350	495
(c) Textile and fur enforcement	849	971	1,322
3. Executive direction and management	269	288	300
4. Administration	566	599	633
Total program costs	9,675	11,640	13,028
Unfunded adjustments to total program costs (−):			
Property transferred in without charge	−6		
Loss on sale of fixed assets	−24		
Total program costs, funded [1]	9,645	11,640	13,028
Change in selected resources [2]	369	−57	
Total obligations	10,014	11,582	13,028
Financing: Unobligated balance lapsing	301		
New obligational authority	10,315	11,582	13,028
New obligational authority:			
Appropriation	10,345	11,282	13,028
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (75 Stat. 353 and 76 Stat. 728) (−)	−30	−4	
Appropriation (adjusted)	10,315	11,278	13,028
Proposed supplemental due to pay increases		304	

[1] Includes capital outlay as follows: 1962, $230,000; 1963, $65,000; 1964, $80,000.
[2] Selected resources as of June 30 are as follows:

	1961	1962	1963	1964
Stores	5	7	7	7
Unpaid undelivered orders	28	395	338	338
Total selected resources	33	402	345	345

Mr. THOMAS. We have before us today our friends from the Federal Trade Commission.

We have our genial Chairman, Mr. Dixon, Commissioner Anderson, Commissioner Elman, a new Commissioner, Mr. Higginbotham—who is absent?

Mr. DIXON. Mr. MacIntyre, who is in New York. He is sorry he could not be here.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. THOMAS. We have Mr. Buffington with us; Mr. Wheelock, the Executive Director; Mr. Frank Hale; Mr. Glendening; Mr. Delaney; Mr. Henderson, the General Counsel; Mr. Miles, Assistant Director, Bureau of Restraint of Trade; Mr. Gotschall; Mr. Stringer; Mr. Williams; Mr. Jacques, Bureau of Industry Guidance.

How is your group doing?

Mr. JACQUES. Very fine, sir.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. DIXON. If we go to the problem of giving notice that we are going to have a hearing for the purpose of issuing a general trade rule, we wouldn't do that until we have a pretty good case.

Mr. THOMAS. Suppose they come in and allege that this is duress, a threat of prosecution. There is an assumption of guilt and it was under those conditions that they entered into an agreement? I am just thinking out loud. We are on your side but there may be some problems before you get through.

Mr. DIXON. All we are doing is shifting the burden. If someone violates one of these rules, all of these hearings we have had——

Mr. THOMAS. How are you going to shift the burden?

Mr. DIXON. In the complaint we will tell the parties that they have not only violated the law but the rule. We will give notice to them that we are going to take notice of these proceedings and they must show cause why the rule does not apply to them or why the rule is arbitrary.

Mr. THOMAS. Where does the burden start originally?

Mr. DIXON. With us.

Mr. THOMAS. How are you going to shift it?

Mr. DIXON. It is all in this work we have done in taking this evidence under oath and listening to everyone who has had his day in court.

Mr. THOMAS. Well, good luck.

We have Dr. Mueller, Director, Bureau of Economics. I see he wants a small increase.

We have Mr. Gercke, Chief, Division of Compliance, Bureau of Restraint of Trade.

We have Mr. Frederick Irish, Chief, Division of Scientific Opinions, Bureau of Deceptive Practices. We also have Mr. Snyder, Assistant Comptroller.

BIOGRAPHY OF COMMISSIONER HIGGINBOTHAM

We have the pleasure of having with us this morning our new Commissioner. We are delighted and happy to have you.

Tell us something about your background and experience. You look younger than I do.

Mr. HIGGINBOTHAM. I am much older now. I will be 35 in February.

Mr. THOMAS. How I envy you.

Mr. HIGGINBOTHAM. In the 4 months I have been in the Commission I think I have aged considerably.

Briefly, I am a graduate of Yale University Law School with honors. I worked as chief of the appellate division in Philadelphia, was special deputy attorney general for the State of Pennsylvania, and I got a substantial amount of litigation representing more frequently than not small corporations, small independent radio stations, people who basically would be considered within the smaller corporate community.

Mr. THOMAS. You are a trial lawyer, then?

Mr. HIGGINBOTHAM. Fundamentally.

Mr. THOMAS. Good luck to you. We are delighted to have you.

Mr. HIGGINBOTHAM. I am pleased to be here.

Mr. THOMAS. Mr. Chairman, have you and your fellow Commissioners any statement for us? If so we shall be delighted to listen to

You have had a pay increase this year. You have another one coming up next year.

You have had an increase in your postage. We would like to know what all this is costing. It may be hidden in there somewhere but I cannot find it.

When you get down to "Other objects" your information is quite meager. We don't want to put an undue burden on you, but if we are going to work over these budgets we want something to work with.

For your information, we all work them over pretty carefully.

Mr. DIXON. We recognize this. This is new to me, but I recognized the deficiency earlier. We will come to you next year with a completely new format. We have that underway now. What I picked up here is a continuation of what has been going on.

I agree with you that we should be able to put it in more concrete and specific form, why we are doing it, what we plan to do, and why we need what we asked you for.

Mr. THOMAS. Go ahead and give us your statement. We shall be delighted to hear from all of you. Say what you want to. We want you to feel at home and be free to say what you have in mind.

GENERAL STATEMENT

Mr. DIXON. The best way is to start with the summary statement of the budget.

The Federal Trade Commission's new methods of law enforcement will be on trial with businessmen and the consuming public during fiscal 1964.

With very little fanfare and not a few difficulties, the Commission has veered course sharply—away from prosecuting scattered violators of the law in the vain hope of frightening other trespassers—toward the more sensible goal of illuminating illegal pitfalls, guiding businessmen around them, and concentrating all remaining funds and manpower on bringing willful violators into line.

The significance of the policy change lies not so much in the novelty of its instruments—some of them have been employed to a limited extent in the past—but in the emphasis being given to the guidance principle. Never before has the Commission so concentrated and co-

ordinated efforts to provide dependable guidance to a businessman on how to avoid violating trade restraint laws; never has it made a more earnest effort to enforce these laws equitably to the end that business evils be eradicated. The new policy offers an opportunity for unprecedented effectiveness.

On the other hand, this new emphasis on persuasion in law compliance, be it voluntary or by grouped consent orders, is disastrously undermined if a few thumb their noses at the Commission and the law and continue to compete unfairly or dupe consumers. When this is allowed to happen, law-abiding businessmen who have been persuaded to trust the Commission's assurances are quite justly disillusioned. And the tremendous potential of their support would be extremely difficult ever to enlist again.

Thus, the Commission is at a crucial juncture. Its already overloaded staff is confronted by a steadily rising volume of work engendered by the growth of our economy; it can hope for neither money nor manpower to attempt universal enforcement of the laws, but it can, with the cooperation of private industry, serve an invaluable guidance role, provided the few who deliberately flout the law are quickly made to cease and desist. Also, in the use of the Commission's new advisory opinions, based as they must be on fact and law, no good purpose is served if they are not received in advance of businessmen's decisions. Guidance too long delayed is no guidance at all. In short, if the Commission is to get and hold the confidence of reputable businessmen and win them as indispensable allies, it cannot afford to let them down by failing in its own responsibilities.

To succeed in this effort will require more money and more manpower in fiscal 1964. This budget provides a total of $13,028,000, an increase of $1,441,500 over the amount allocated for fiscal 1963. Of this increase, a total of $378,000 must be used to meet the added cost of the pay raise voted by the Congress in 1962.

COST AND ABSORPTION OF PAY INCREASES

Mr. THOMAS. How much did the first increment of the Pay Act cost? Did it average 7 percent?

Mr. GLENDENING. Roughly that.

The next one was between 5½ to 6.

Mr. THOMAS. It cost in the neighborhood of $375,000. Did you absorb the first one?

Mr. GLENDENING. We absorbed $154,000 out of this year's.

Mr. JONAS. The next sentence says you absorbed only $96,000.

Mr. GLENDENING. $96,000 in personnel, and $58,000 in other operating expenses. We will correct that statement.

Mr. DIXON. A total of $154,000 already has been absorbed for this purpose out of 1963 funds. Then, after meeting increased costs for promotions, $100,000, and for operating costs such as travel, rents, supplies, etc., there remains $609,000 of the requested increase which would be available for expanded law enforcement. These funds would make possible the expansion of the Commission's staff from 1,178 to 1,268, an increase of 90 employees.

The increased appropriation sought will fall far short of matching the anticipated workload, so the difference is going to have to be made

up by developing more and faster production from the present staff. Buttressing this determination are two hopeful factors: One, the young attorneys hired with additional funds this year have gained considerable experience and can be expected to handle casework faster and with less supervisory time required from veteran staffers; and, second, the procedural changes introduced by the Commission during fiscal 1962 (particularly the new consent order speedup) are no longer unfamiliar to the staff and the business world and hence can be expected to produce even better results. Nevertheless, the Commission's backlog threatens to climb even higher.

WORKLOAD LEVELS

All apart from the casework engendered by expanding investigations to include enough equally culpable competitors to make corrective action really effective, there continues to pour into the Commission an ever-heavier volume of pleas for help. Applications for complaint last year reached an alltime high of 6,970, which is 41 percent more than the 4,886 in 1961 and more than double the number received even 4 years ago. And no lessening is in sight. Furthermore, there does not now exist any acceptable way of diverting any application for complaint that may have merit and plainly comes under FTC jurisdiction. It must be investigated with sufficient thoroughness to protect the public interest and at the same time safeguard against the bringing of unwarranted charges.

This underlines the magnitude of the investigational workload which, despite 18 percent faster handling in fiscal 1962, continued to mount. A total of 1,677 investigations was completed, compared to 1,427 in fiscal 1961. At the end of last June 2,699 investigations were pending, about a 2-year backlog.

Nowhere is the workload more crucial than in the Commission's intensified attack on monopolistic practices. Counting complaints authorized pending consent settlement, there were 234 issued during the last fiscal year, down slightly from the 240 in 1961; however, only about 100 orders to cease and desist were handed down in each of the 2 years. This means that more than twice as many formal actions in this field are being started as are being completed. Moreover, now in process are several large-scale investigations designed to clean up industrywide violations of the Robinson-Patman Act which will—barring near unanimous acquiescence in consent orders by the proposed respondents—result in unprecedented jamming of the casework pipeline.

Admittedly, the broad-scale attacks on monopoly are somewhat unusual, but if successful they can accomplish a genuine cleanup of industry evils whose abolishment never has been or could be achieved by culling out and restraining several violators as examples to their delighted competitors. Actually there is an element of unfairness in restraining a few while failing to halt others equally culpable.

INVESTIGATION OF PRICE DISCRIMINATION CASES

Illustrative of the complexity and volume of work being invited by broad-scale enforcement attempts are the recently announced actions to halt some millions of dollars of discriminatory allowances

annually in the garment industry. This inquiry started in 1960 with questionnaires sent to 234 department stores asking for information on promotional allowances given in connection with special sales such as back-to-school days, anniversary sales, and Christmas catalog sales. From these stores came information that their suppliers had been giving large discriminatory allowances, whereupon the Commission demanded by questionnaire detailed information from 310 suppliers who did business in at least 5 cities. Early this January, the Commission announced that 248 of these suppliers have been offered the opportunity to negotiate consent orders halting the illegal practice.

Mr. THOMAS. I read the news release you had on that subject. Is not every major industry engaged in the same practice? Take the building materials industry, for example. I can think of instances when a supplier will go into a big city where there is a large outlet for a particular product, and the supplier will put on an advertising campaign for this particular product and at the same time so will the lumber yard or hardware store.

It is my understanding that the supplier of the particular item will pay 15, 25, or 50 percent of the advertising bill. That is a widespread practice, is it not?

Mr. DIXON. It certainly is. No action that we have taken is to be interpreted by anyone as meaning we are striking out blindly at the advertising of products. We are obligated to enforce section 2(d) of the Clayton Act, among other things, which makes absolute a law violation where a seller, in granting a promotional allowance, does not make it on an equal and proportionate basis to competitors.

What we have found here by these mandatory questionnaires is that certain of the large department stores, with tremendous buying power, have apparently just said, "I sold $2 million of your dresses last year. If you want me to keep selling I want 10 percent."

We held a hearing at this Commission after we first started this procedure, and we were personally attacked and many accusations were being made, and we afforded both sides the opportunity to come and tell us and to advise us.

We had about an 8-hour day and I never heard as many law violators come up and compliment us for what we were doing because they said, "Thank God, finally somebody has enough sense to move into an industry, not one at a time but toward a substantial number."

No one of them could afford to withstand the pressure of one large big department store.

Mr. THOMAS. Does the Clayton Act refer specifically to any particular type of operation or does it deal purely with shaving of the price from one competitor against another?

Mr. DIXON. The Robinson-Patman Act as amended, section 2 of the Clayton Act, deals with discrimination; 2(a) deals with price discrimination; 2(c) is aimed specifically at a price discrimination through brokers; 2(d) deals with promotional allowances; 2(e) deals with discriminatory allowances in the form of services.

Mr. THOMAS. Say some large chainstore with a tremendous volume outlet goes to a manufacturer, and I understand this is almost common practice, and says, "We will buy 1,000 dozen pair of shoes from you. Here are our plans and specifications, and this is what we want."

Mr. DIXON. It is common practice.

Mr. THOMAS. "We don't care what you charge X but we want to know what you will charge us."

How are you going to get around that? The manufacturer eliminates his sales cost, promotional cost, he has a big order here, mass production. Can't he afford to do that and make money by giving him a cheaper price than he gives a merchant who buys 10 dozen?

Mr. DIXON. Congress was wise when it passed 2(a) of the Clayton Act. They provided a cost justification discount, sir. This is efficiency and no one should do anything to impair efficiency.

If this seller, by selling to Sears, Roebuck in large quantity, and cutting out a lot of sales expenses and a lot of handling expenses, can save money, he is entitled to pass that on to Sears, Roebuck.

Mr. THOMAS. Where is your case, then?

Mr. DIXON. My case is that Sears, Roebuck usually, and I don't want to use that word, I say a buyer, a large buyer doesn't care a hoot and holler whether it is justified or not. He usually says "Give it to me or I will get it from somebody else."

When this Commission found that man giving it to him, the Commission has sued that one party.

This man has said, and you perhaps have heard it, "I may be a law violator, but if he doesn't sue my competitor I will be the only law complier and I will be out of business."

What we are trying to do is this: The instant we find out this is a common practice we want to use the tools Congress gave us and find out if it is common in the industry, and if they are all commonly violating the law, and to move equitably against the group.

Mr. THOMAS. Where is the violation?

Mr. DIXON. If you grant a price discrimination to one competitor that you do not give to another, that can be proven to show there is a lessening of competition or a tendency toward monopoly, that is a law violation.

Mr. THOMAS. Suppose the company says they will buy 1,000 dozen, and the other says 500,000 dozen. It is still a large quantity. Where is your case?

Mr. DIXON. If we investigated this and we asked them to submit to us their cost justification, and we found that that cost justification could not explain this defference, and then we found a competitor who was not getting this, competing with this buyer, one who was being harmed, we would sue them, and that would constitute the proof.

Mr. THOMAS. What was the nature of that famous A. & P. case you had some 5 years ago? Was it along the same line?

Mr. DIXON. This was a brokerage case, I think. It was some time ago.

Perhaps the one you refer to was obtaining a price discrimination through a brokerage pass-through. They had what they called a broker but technically he was nothing in the world except their buying agent. This was just a good way to get an extra 5 or 10 percent. The law covers that and makes it a per se law violation without necessity of showing injury.

This is one that is a per se law violation.

The law is sound. The law here says that in effect a seller who goes into the market to deal with a buyer must in effect treat all buyers fairly. He must not harm competition in satisfying his own desire to obtain an inequitable share of the market.

If you allowed that to happen there would be only three or five Sears, Roebucks and you wouldn't have these other small business people.

I am sure Congressman Evins has heard a lot about this and he will hear more about it as he goes along. This is where the mass of complaints come from. They come from all types of industry.

They say to the Federal Trade Commission, "Look, Commission, my seller apparently is selling to my competitor across the street, a large chain, at a price which is so low that I cannot even resell my product.

"For instance, that large chainstore is selling milk, poultry, bread, or some other item cheaper to the public than I pay for it."

He says, "Something is wrong."

Mr. THOMAS. That is the obvious case.

Mr. DIXON. That is right. We hear these by the thousands. They are not isolated. This is usual.

And it is not unnatural to expect because buyers and sellers meet in the market and they use their power.

If the buyer has more power than the seller, he will turn it on to the seller.

The seller has a law which says to him "You cannot grant him a better price except for cost justification than you do his competing competitor."

The law says in section 2(f) that the big purchaser cannot seek this price, but the courts have pretty well taken care of that law because they have said in order to prove this you have to have enough proof to show that not only was it a price discrimination but that the purchaser knew it, or should have had reason to know it.

A purchaser doesn't know what is in the seller's books. He says, "You must be offering this to somebody else."

He says, "I am."

Then he says, "You have to do it to me."

What these people are interested in is getting this special price. They don't care how they get it. They want it.

SUPREME COURT DECISION IN "SUN OIL" CASE

Mr. THOMAS. What was the recent oil case you had?

Mr. DIXON. Sun Oil. Thank God the Supreme Court underwrote Robinson-Patman.

Mr. THOMAS. Go into detail on that.

Mr. DIXON. It was a rather simple case, the facts of the case being simple. Sun Oil Co. in the city of Jacksonville had several outlets.

Across the street from one of these outlets an independent, one of the new animals in the oil retail field, a so-called independent which traditionally does not have a national brand gasoline established but he just sells gasoline, put a station across the street.

Mr. THOMAS. It all came from the same still?

Mr. DIXON. Yes, and often are delivered in the same truck, but the public doesn't know this.

This station traditionally sells 2 cents under the established brand.

Apparently to seek more volume the new independent cut his price and was taking so much away from this independent leaseholder of Sun Oil—this is an independent businessman running that station—that he went to Sun and he said he needed help.

Sun said "I will help you in this amount. I will absorb part of this cut, this tank wagon price, and you must absorb part of it, and you go and get within 1 cent of that man."

When this happened the little station went down again and then went down again, and the price war broke out.

When Sun gave this to this one station they did not give it to the station 11 blocks up the street or stations in the same area. We got the complaint.

We looked and this was resulting in injury to these other Sun Oil dealers. We sued them.

They interjected what is called the good faith defense, which is recognized in section 2(b) of the act. Since the Supreme Court's decision in the *Standard Oil* case of 1951 where they held that a good faith defense was an absolute defense, the lawyers came in and interjected this.

The Commission took the position that a seller of gasoline could not use, as a good faith, his customer's competition of the little station here. This was the narrow point in the law.

The Court upheld that point and said, "This is not the competition of Sun Oil."

In considering this case, however, many arguments were made, the economic argument, the argument which has been repeatedly made in this country that Robinson-Patman is not consistent nor compatible with the Sherman Act.

The Court dealt with that. They dealt with it very clearly in my opinion.

They took each of these economic arguments and dealt with them one at a time. This in my opinion is long overdue in this law which we have because these laws are not inconsistent to me, not at all.

One law says we will honor the theory of free competition in America, that we must have competition.

The other law says that in addition to that a seller has the responsibility of being fair to his customers. That is all it says.

Mr. THOMAS. When was this case originated?

Mr. DIXON. About 1956.

Mr. THOMAS. The stations involved had long ceased to cut prices, more than likely. Perhaps they have had three price wars in between this time. What is the net result of the decision? How will it affect other areas and other stations? Chances are both of these stations are out of business by now.

What is the sum and substance of all the litigation and decision?

Mr. DIXON. I am glad you asked that, sir. I will tell you this—the order applies to Sun wherever they do business. This one place cannot do this again.

OIL PRICE DISCRIMINATION CASES

We have other cases. We have had a case decided against the American Oil Co. and against Shell Oil Co., and Atlantic, and many others. They are on the way. A new problem is before us. I cannot talk about the problem but the Commission charged them with violating the law when they moved from this direct price discrimination to one of consignment. That is before us today.

We have moved in this field, and it has been long and tedious because they have good counsel and they have very sharp businessmen.

The sum and substance of this is that in the end they will be given a burden, as the law should require of these big national refiners and integrated companies. When they have a multitude of station operators, they have leased to these men these stations, they sell the gasoline to these stations. These men are independently small businessmen. They cannot come along and pick out one of them and give a special privilege and not give it to the others if it hurts them.

In other words, this law merely says "You must not discriminate in price where it will harm these competing customers."

There is a problem of figuring out a market area.

Mr. JONAS. How far away from the place where the discrimination occurred did the complainant's business lie?

Mr. DIXON. There was one within 11 blocks of it. There were about five stations in the general trade area. There were four or five other Sunoco stations in this area.

The Court here talked about a feathering process, about how far you go.

Throughout the case they said to the Supreme Court "This is an impossible law. If we have to give it to the next one this thing will be a chain reaction and it goes all around and it will result rather than in price competition, price rigidity."

The courts dealt with that on the point and said it is the exact opposite. The only competition you will find in the oil business today is coming from the fact that some of these small independents have to meet competition. If you don't recognize that you will have price rigidity the exact opposite and price maintenance rather than any chance of competition.

The only competition that has come into this business at all has come as a result of some of these independents, and these independents are getting this gasoline from the same spring. They are coming from the same tanks. They sell to these same people.

Then this little independent cannot call it Sunoco Gas. He cannot call it Esso Extra, Gulf Pride, or anything else. He must call it Panther Gas, or something. The public doesn't know that is the same gas.

For him to sell it he has to sell it at a lower price.

The instant he puts his price lower than this and it begins to cut into one of their dealers, then they have a problem.

What they have been doing and what we found and what we alleged here is that they want the little man to suffer along with them because of the same problem they created.

Mr. THOMAS. How far will that decision go—3 miles, a half mile, five counties? The next time they go out of the city limits do you have to start over again?

Mr. DIXON. No, sir. I think nobody in America is quite as wise as a business organization. They know the market better than we do. If they will take a reasonable step I am quite sure they will find the enforcement agency being reasonable with them.

A feathering process doesn't mean that if in this little town there is a price war you have to move into the town 15 or 25 miles away, but it does mean, sir, a realistic appraisal of the situation.

We are not playing dominoes. We are talking about proven facts.

It was proven in this case that these four or five stations, when this happened in this one station, that they lost gallonage. It went down month after month and some of them are not in business today.

SALES BENEATH COST

Mr. THOMAS. Let us take the reverse of it. I see these places in communities where price wars are going on. They can give away baby rattlers and all-day suckers. Before you know it, he is selling that gasoline at 3 or 4 cents below what it cost him. He has a special sale on that day.

What are you going to do about him?

Using that old rule of reasonableness and good faith he cannot last 60 days or 90 days because he will be broke.

Is he going to force everybody within a reasonable distance to come down to that price and they all go broke together? What is that side of the coin?

Mr. DIXON. The side of the coin where a seller engages in sales beneath cost, this is not a per se law violation. It can be a violation only if we can find enough injury to show it violates section 5 of the Federal Trade Commission Act.

How many sales beneath cost you have to make before you are injured is one of fact.

We are chasing all over these United States in the fluid milk business. They are coming from each of your States. There is one in Texas, one in Michigan, Colorado, South Carolina, Tennessee, Missouri, Ohio, Kentucky, and New York. We are having hearings and investigations in these areas.

The allegation there is from the small independent dairyman that "In my markets milk is being sold x number of cents a gallon under my cost."

We know that no matter what we have done, we have stepped up our investigation and we are doing everything we can, that this small man cannot stand too much of that. They are going broke by the thousands in America. This is one of the reasons we asked for the temporary authority to issue a cease and desist order.

No matter how fast we may proceed in a litigable case, due process demands that they have due process, and years will pass before the Supreme Court finally rules on it. Where will that man be?

The sales beneath cost can be engaged in only by a party that has enough economic power to make it up somewhere else.

It is difficult for one little independent gasoline station to do this because we find the independent gasoline station has an investment of $4,000 to $7,000.

He is living on a lease that can be cancelable on notice of 30 days. We find that they are canceled on any kind of pretext. They say you did not keep your bathrooms clean and you are not doing a good job for me, or your credit is bad, you insulted a customer, or something. Some of this can be legitimate. Certainly the seller must have the right to pick his outlets. He must have some rights, too. Nevertheless, none of these little people have the ability and economic resources to engage in 1-day sales beneath costs. I assure you of that.

But a national chain has that ability. They can give it away for a long time, sir, until the market suits their pleasure.

Mr. THOMAS. Of course, that is the danger of economic strength.

Mr. RHODES. Of course, you said that in Arizona the milk situation was only as a result of a fight between supermarkets.

Mr. DIXON. It could be, sir. You understand that about a year ago we realized that the trouble could not only come from the large national seller of the milk, but could come from the buyer, who has 100,000 items in his store, to decide this milk shall be the loss leader. We are there right now, sir.

Mr. RHODES. Was this fight between supermarkets out of your jurisdiction?

Mr. DIXON. No, sir; not at all. We have jurisdiction. It is no problem to have this if it is a large national chain. Sometimes we have the problem that a supermarket can be a one-store operation. It gets a little bit more difficult. Very often we can find the milk flowing across the line in commerce, in the stream.

Mr. RHODES. You signed a letter about a week ago in which you washed your hands of the whole thing because you said it was competition between supermarkets.

Mr. DIXON. In certain localities we find our problem is insurmountable on jurisdiction, where the milkshed was entirely in the local area and where the businessman did business only in this one State. He can be troublesome.

Mr. RHODES. I assure you that is not our situation.

Mr. DIXON. If it is not, we will take another look at it, sir.

Mr. RHODES. All right. I wish you would. We have small milk producers going broke every day.

Mr. DIXON. I would say they are going broke pretty nearly everywhere in the United States. This is not any monopoly for any one State. This is going on all over the United States.

Mr. EVINS. Mr. Chairman, I am glad you diverted the Chairman of the FTC from his prepared text to his oral presentation.

Mr. THOMAS. He is doing all right.

Mr. EVINS. Was this Justice Goldberg's first opinion?

Mr. DIXON. I think it is his second, but it certainly is a fine opinion.

Mr. EVINS. You agree with it?

Mr. DIXON. I could not have written it myself as well as he wrote it. I certainly think he interpreted well the philosophy and the underlying congressional intent when they passed the law. So many people seem to have lost sight that this is what Congress had in mind. We have some geniuses writing about this in the country. They are pretty good at striking at this thing. It is a problem. It is a tough problem, sir. It is pretty hard to follow the dream of having competition. A lot of people have said we ought to have only one type of competition in America, rugged competition between the buyer and seller. Let them butt heads and that will take care of everything else.

EUROPEAN MARKET CONDITIONS

Mr. THOMAS. How does competition exist in England, France, and Germany? Those countries were in a small way 2 or 3 years ago with cartel systems, and so forth. How are they getting along?

Mr. DIXON. I tell you, maybe by accident or design, some great things are happening in Europe. I have been there now two times at the request of the Secretary of State and sat on a committee which they call the Committee of Experts on Restrictive Practices in OECD, whatever all this means. While we are good and affluent in America, I think they got suspicious and started looking. They have turned to our way now, and by the Treaty of Rome and by setting up the European Common Market, they have pretty well established a Federal Trade Commission in Europe. They have pretty well patterned it after some of the powers that Congress gave us, and they have given them a few extra powers.

Mr. THOMAS. When did they do all this? They still have the trade association. In some of these countries you have to get the permission of the trade association even to go into business. Where is that competition?

Mr. DIXON. You bet your boots, sir. In England they have absolute monopoly and cartels, and they still have these problems there.

Mr. THOMAS. They still have it. How are they doing so well? I understand their national gross product has been expanding in England, France, and Germany more rapidly than ours. How does that all jibe with all the "fuss and feathers" we create here at home?

Mr. EVINS. Is it the foreign aid situation, Mr. Chairman?

Mr. DIXON. I could talk for 2 hours on my ideas about that.

Mr. THOMAS. Do not talk for 2 hours, but talk for 5 minutes and tell us. They have not been getting any foreign aid in the last 4 or 5 years in those countries.

Mr. DIXON. These people did not have any way to go but up after World War II, sir. We sent them our aid, assistance, brains, and manpower, and then they started. I think they began to introduce some things that America had been preaching, a new form of credit, a new form of mass production.

Mr. THOMAS. Let us go to something even more important than that. They bought new machinery. The old machinery had gone to pieces. They bought new machinery and have a more efficient operation. Let us get fundamentals first.

Mr. DIXON. I agree this is quite true. Another thing can be said with certainty. I think some of it is overstated, but their costs of labor are cheaper than our costs of labor. When you add fringe benefits to them, their cost is a little bit more than one might think. Nevertheless, the costs of operation there are less than our costs. Their social structure is not as high as ours. Yet, their market had not been tapped, Mr. Chairman. You walk around in the city of Paris and you are beginning to see television. They are beginning to buy stoves and Frigidaires. They are beginning to buy automobiles. They are beginning to buy tires. They are beginning to build roads. There is a bonanza of a market sitting in Europe. The laboring men also have found out, I think, what Mr. Henry Ford taught this great country, that it would promote full employment and increase our gross national product to pay the laboring man a little bit more than peon wages. Today, labor over there is crossing the line. He can move freely around. There is not a labor surplus in Europe to speak of, but they are catching up quickly. I was talking to the German people, and their costs are coming up.

Mr. THOMAS. We are directing our question to the monopoly which they had and which they still have. How does that affect our economy compared to our efforts to prevent it in this country?

Mr. DIXON. Let us take France. I was talking to the French delegate. They have monopoly there. Let us take the chemical industry, the drug industry, as one example. I was inquiring about it. "You have monopoly. Let us concede it." They said, "Yes, we have monopoly, but we have another law." Since the Prime Minister, De Gaulle, has come to power, they are not troubled much with legislation. Just whatever he says happens. With his power, they go down to the retail druggist and they tell him what he can sell it for. So, they are controlling prices, you might say, through government agencies. I do not like this. To my way of thinking, that sacrifices freedom. The only thing we have to regulate prices in America is competition.

Mr. THOMAS. Do they have price control?

Mr. DIXON. They have a form of it.

Mr. THOMAS. In Germany and England?

Mr. DIXON. I do not know about Germany and England. I think the control there is the ability to buy.

Mr. THOMAS. I thought they had price control, allocation, rationing, and everything. The last one to throw it out was England, but England threw it out 4 or 5 years ago.

Mr. OSTERTAG. Are you limiting your comments to that of drugs?

Mr. DIXON. That is correct. There may be other examples. Of course, most of their heavy industries are cartelized or nationalized. This is where they differ from ours. Their ability to control prices there obviously is the product mix and what they can charge for it, the ability to charge. There is a great need for these products. There is a tremendous growth going on in housing and everything else. You see that everywhere you turn there.

I think without doubt some 200 million people are sitting there who are probably 20 or 30 years behind us in the things that the common man in America considers as just an ordinary item. These things are still to be sold in Europe. I would not subscribe to the idea that an economy in the long pull will ever be any good if you are going to have state-blessed monopoly, sir. This was true of Germany. This was true of Italy and has been true of many of those other European countries. They have had their troubles, too. We have had some wars, too. It seems to me that somebody over there is on the right track because he is pursuing freedom.

Mr. THOMAS. Continue with your statement. I see you do not know any more about it than I do.

Mr. EVINS. I believe he does, Mr. Chairman, although I do not wish to disagree with the chairman.

Mr. THOMAS. Go ahead, Mr. Chairman. We are all trying to learn something.

Mr. DIXON. I do not pretend to be an expert on Europe.

INDUSTRYWIDE APPROACH ON CONSENT ORDERS

Certainly there will be less resistance to acceptance of these consent orders I was talking about if the industry is convinced that all of its competing members will simultaneously agree to abandon these unlawful practices.

Mr. EVINS. May I inquire there, Mr. Chairman? How long have you been pursuing this wholesale consent practice? You initiated this. It is an innovation of the FTC under your regime.

Mr. THOMAS. No, that started 6 or 8 years ago. We encouraged it.

Mr. EVINS. It is on a larger scale.

Mr. DIXON. This was first being done when I came to the Commission. The first time we tried it was in some citrus cases down in Florida. As a matter of course, we have instituted it at the Commission down at the building level to see if we can move a substantial group.

Mr. EVINS. How successful has it been and how widespread is it being accepted?

Mr. DIXON. We shall find out on February 15 whether this is going to work or not, because we have mailed out 248 of these proffered settlements with an order to this industry.

Mr. EVINS. There is a report that the Budget Bureau is holding you up and will not let you send these questionnaires out.

Mr. DIXON. No, this is something else. This is where we are seeking what I would call vital information as to our 1,000 largest corporations in America.

Mr. THOMAS. You can give special attention to that when you have concluded your statement.

Mr. DIXON. I have had members of this very industry come to my office.

Mr. EVINS. All I am inquiring about is how successful it has been. Are you going to have to go back to the one-case proposition, or are you succeeding with your wholesale methods?

Mr. DIXON. We shall find out, Mr. Evins, this way. The businessman has said, "Don't single me out. I would be willing to stop this if you will get everybody else. I do not like to give away money." I am going to find out whether they have been telling me a lie or not. I am going to find that out. If it does not work, then we will have a whole lot of cases in this pipeline. But this time, I assure you we are ready.

Mr. EVINS. You have been in business long enough to know the answer to that.

Mr. DIXON. We had 50 of these things already signed when we plowed them back up to get a larger number. They were coming. Out of the 248, I would not be surprised if we did not have to try 75.

Mr. EVINS. You had 50 when you came aboard, and you have had 275 more.

Mr. DIXON. We started out with 146, and before we voluntarily pulled them back to expand the number, we had about 50 of those signed at the moment. Then we expanded a little bit to 248.

Also—and this is tremendously important—the industry members willing to halt the illegality must be convinced that the Commission will bring immediate action against any who continue to violate the law. Indeed, if the Commission fails to do so, future efforts at industrywide cleanups will encounter far more resistance.

All apart from such broadscale enforcement efforts, the remaining workload finds the Bureau of Restraint of Trade straining at the seams. Despite completing more than twice as many antimonopoly investigations as during the previous year, the number pending last June 30 had risen during the year from 1,484 to 1,516.

Mr. THOMAS. When we get over to your workload table in the Bureau of Restraint of Trade, you left blank two or three very significant figures. We just wonder why you left those blanks for 1960 and 1961 compared with 1962. We will go into that later. You might be looking at it and come up with an answer.

Mr. DIXON. I want to tell you, I am not hiding any secrets.

At the same time the Bureau is faced with a 2-year backlog of cases for litigation, and when to this is added the increasing number of pending antimonopoly investigations, the caseload represents a potential 4-year backlog. And looming large in the complexity of this workload are 22 merger cases in various stages of litigation, with 73 others under formal investigation.

This budget justification does not provide for any program increase in the Commission's antitrust work, but this does not mean there will be any leveling off in this effort.

Mr. THOMAS. With the exception of the Bureau of Restraint of Trade, with 202 employees, all the rest of the bureaus have gone up a little. We were just wondering about that. We thought perhaps that was one of the most important functions you have.

Mr. DIXON. We have asked for some increases here. We think so, too.

Mr. THOMAS. You have had a tremendous increase in the last few years. Anyway, you are not leveling off or curtailing your activities.

Mr. DIXON. If we had stood still, if we had taken this animal just as she was standing there then, I guess we would be in very good shape, sir. That is one way to say it.

Mr. EVINS. May I make an observation, Mr. Chairman?

Mr. THOMAS. Surely.

Mr. EVINS. I have read some of this text, and I was impressed that in the text you are appealing for more help, more attorneys, more assistants, but when you get over to the table, you justify what the Bureau of the Budget recommends.

Mr. DIXON. This I must do, sir.

Mr. EVINS. You asked the Budget Bureau for more and they denied it?

Mr. DIXON. That is correct, sir. I come here within the framework of the complete budget presented by the President.

Mr. EVINS. You did not revise the text, but you left the figures the same as the Bureau of the Budget.

Mr. DIXON. My obligation is to tell you what our problem is, sir, and tell you how we are going to try to meet it. In this field, as I said to you, all we can do here is to intensify such enforcement. We are going to do the best we can.

Mr. THOMAS. No complaint.

Mr. DIXON. On the contrary, intensification of such enforcement is demanded not only for the rescue of sick and dying victims of unfair

methods of competition but also for the building of long-needed business confidence in the Commission's capacity to deal with scofflaw predators. It is difficult indeed to induce the members of any industry to comply with the antitrust laws (voluntarily or through acceptance of consent orders) as long as some of their number violate them with impunity and profit. Certainly intensified antimonopoly enforcement is a must if the Commission's new broad-scale efforts to clean up competitive evils are to supplant the whipping boy type of case selection.

BUREAU OF INDUSTRY GUIDANCE

Considering now those areas of Commission work for which this budget would provide increases in fiscal 1964, none is more important than the $184,000 increase for expanding industry guidance. This program is now operating at a cost of only $446,000 annually, substantially less than for any other major Commission activity. Moreover, money spent on this endeavor not only serves the direct purpose of guiding businessmen away from law violations that damage competition and bilk consumers, but indirectly serves to reduce the number of cases on which enforcement funds would otherwise have to be spent.

This, too, is the field where the Commission has recently launched an unprecedented effort to forestall law violations. To its long established trade practice conferences and its program for the issuance of industry guides have been added two innovations: binding advisory opinions by the Commission itself and promulgation of trade regulation rules. The new procedures went into effect last June 1, after we had been here.

The giving of advisory opinions on the legality of proposed actions by businessmen shows promise of becoming very effective indeed. Already 116 requests for such opinions have been deemed worthy of consideration, and 25 have been issued. Another 11 are being processed. The others will be processed as soon as the newly created Division of Advisory Opinions can find time and manpower to evaluate the proposals submitted and do the legal research needed by the Commission in reaching its determinations. Heretofore, advisory opinions were given only by the FTC's staff and in no way were binding on the Commission. This, of course, greatly limited their persuasiveness. The new procedure is being welcomed enthusiastically by businessmen, and the guidance already provided has steered expenditures of many millions of dollars into legally safe channels. However, the success of this new instrument is being threatened by the FTC's most ancient enemy—delay. Without the additional funds requested, the needed guidance would be proffered too late to achieve its purpose.

The second innovation, trade regulation rules, will identify practices which the Commission believes to be unlawful. These rules may cover all applications of a particular statutory provision, whether nationwide or limited to particular products, industries, or areas. Such rules will be relied on by the Commission's trial lawyers who heretofore have had to prove over and over again that a particular timeworn practice is illegal. The rules thus will serve both to advise businessmen and to speed the prosecution of cases. Under consideration now are rules for a dozen different industries.

Industry guidance work also contemplates expanded activity in the longer established guides and trade practice conference programs. Here the problem is two-fold; not only are there cogent reasons for issuing guides to cope with new areas of illegality, principally deception, but the guides already in force must be administered. Thus, as the total number of guides increases, so does the job of administering them. For example, at the same time the Commission is developing guides to counter deception in the sale of room air conditioners, radiation detection instruments, and goods of foreign origin, it is shouldering a new administrative burden resulting from the recent issuance of guides for shoe content labeling and advertising. The same cumulative workload problem is encountered in the issuance and administration of trade practice rules.

BUREAU OF TEXTILE AND FURS

The largest increase, $294,000, for any area of Commission work is requested for the policing of four separate and important pieces of consumer legislation designed to protect the public from being misled in its purchases of textile fiber products, woolens, furs, and wearing apparel which might be dangerously flammable. Unlike other laws enforced by the Commission, these statutes (and the rules issued under them) contain affirmative requirements that must be continuously policed.

And a momumental task it is, considering the size and distribution of the industries involved and the competitive pressures generated within them. Each year more than 100 different industries make textile products covered by the acts with sales running into the billions of dollars, second only to food and shelter, while in the sale of woolens both sellers and buyers are beset by improper labeling invoicing not only of domestic but of imported products. When to this policing job is added that of assuring that 175,000 distributors of fur products are labeling and advertising them truthfully, it should come as no surprise that the present allocation of $766,000 for enforcement is inadequate.

BUREAU OF DECEPTIVE PRACTICES

Turning to the broader field of general deceptive practices, here again the workload is pulling dangerously ahead of the Commission's capacity to cope with it. Complaints from the public and from reputable merchants jumped 48 percent in fiscal 1962 over 1961, reflecting either harsher competition or increased awareness of the Commission's purpose, perhaps both. Whatever their cause, these applications for complaint contained enough justification to warrant opening 897 new investigations during the year while only 788 were completed, thereby bringing the backlog up to 1,183 as of last June 30. As the backlog grows, so must delay in bringing relief; indeed, if relief is delayed too long, it can come too late.

FOOD AND DRUG ADVERTISING

Particularly pertinent here is the situation in the policing of food and drug advertising. False claims for the efficacy of these products not only drain money out of legitimate channels but they mislead

consumers in their most important expenditures—where dollars buy sustenance and health. While it would be overdramatization to cite spurious cancer cures as representative, it certainly is no exaggeration to point to many examples of mere palliatives being offered as the "at long last" answers to many human ailments. Not only are such claims more sophisticated than in former times, but many of the products are genuinely efficacious for some few or might bring temporary relief to many. Where the problem lies is in limiting advertising claims to what is true—finding and defending the factual line beyond which consumers are being victimized.

Because of the limited value of scattered actions in this field, the Commission is striving for industry-wide correction of unlawful claims. Now under way are multiple investigations of such products as cough and cold treatments, reducing devices, analgesics, and air filtering devices. Other similar broad-scale efforts are long overdue, but insufficient professional manpower to develop necessary scientific evidence is delaying the effort. Such evidence would have to be conclusive indeed to resist the well financed attacks that would be made upon it, particularly in the fields of dietary foods and drugs, germicides, skin disease preparations, and mineral and vitamin supplements.

DISTINCTION BETWEEN FDA AND FTC FUNCTIONS

Mr. THOMAS. Is there any overlapping between your activities and that of the Food and Drug Administration in this particular field?

Mr. DIXON. In theory, there could be lots, but in practice little or none. This is because of our liaison and understanding with them. Now, thank God, we are beginning to move parallel, to use both tools as effectively as possible. Our law, section 5, always covered false and misleading advertising. This would include where it appeared on the label as well as in the advertising copy itself. With the passage of the Food and Drug Act, Food and Drug was charged with the responsibility, among other things, of misbranding and misleading statements on the label in the fields of food, drugs, cosmetics, and devices. This is the only thing they can touch. We must touch not only what they can touch there, but everything beyond there. We have an arrangement with them whereby we daily check and stay out of the strict labeling of it unless we have the better tool.

Many times on the label you will see an economic claim like two for one or three for one, or something which goes beyond safety or health or something in that field. We have very little overlap. The job there, in my opinion, is bigger than both of us. We have plenty to do here, and we have no right, and should never have, to go out and both be harassing, you might say, the same businessman on the same question.

Mr. EVINS. The Food and Drug may be investigating a case for false labeling. Would the FTC simultaneously be investigating the case for false advertising?

Mr. DIXON. It could certainly do this. This is what we should be doing. In other words, if they are going to seize something, we should go as fast as we can to clean something up. We are beginning to get in line to do this, sir. In other words, the hope that if we took one case and pursued and finished it and this would be a lesson not only to this party but to everybody else, has been a dream.

FALSE LABELING VERSUS FALSE ADVERTISING

Mr. THOMAS. What is the difference, strictly speaking, between false labeling and false advertising?

Mr. DIXON. Very little.

Mr. THOMAS. Take aspirin as an example. In those two fields there is room for 100 percent duplication of effort, is there not?

Mr. DIXON. I think the Congress' fundamental distinction is very limited.

Mr. THOMAS. The area of activity covers four or five different fields.

Mr. DIXON. You remember, you here in Congress have always thrust them into the area of health and safety. We were thrust into the field of economics. This is the real and sensible division and dividing line between the two. You have special acts, such as the Harrison Act requiring affirmative disclosures, which they enforce. These are things that must be on the label, else it will be considered mislabeled in accordance with another section of the law. This would not be mislabeling to us. Perhaps it would not be false advertising. We are talking now about a statement which says, "Take Granny's old liver pills and it will cure cancer." If that is on the label, that is a labeling problem; but if this is in a book or ad or a magazine, it is our problem.

Mr. OSTERTAG. Is it your problem if it appears on television?

Mr. DIXON. It is our problem entirely. They cannot touch it with a 40-foot pole, sir, they have such restrictions.

ADVERTISING OF COUGH AND COLD REMEDIES

Mr. EVINS. I wish you would look into the cold tablets. I have been taking a lot of them here lately, and they do not do any good.

Mr. DIXON. I have just read that we have an industrywide look at these cough and cold remedies.

Mr. EVINS. I have not been able to find anything that cures me.

Mr. DIXON. We would have a lot more complaints than we have right today if we had followed the traditional thing of taking one of those in coughs and one of them in piles and one in something else and sued them. It takes time to stop when you have one and find out if there are others doing the same thing, and you step back and then you move against this group. We think this is the good old American way to enforce the law. We think we can do our job and do it more effectively and fairly. That is what we are trying to do.

Mr. THOMAS. I turned on the radio the other night and heard that one aspirin was claimed to be three times as effective as any other nationaly known brand. All right, suppose you spend x number of dollars combating the falsity of that statement, what have you accomplished? Who is misled? I take aspirins all the time. I know there is no difference between them. Anybody else who does the same thing knows that.

Mr. DIXON. Mr. Chairman, you are highly intelligent and probably known about aspirin. I have listened to a lot of medical testimony in my day, and I think that aspirin today is still the best product on the market. I think they pretty nearly all agree. They do not

know why or how it works, but they just know it works. They know that aspirin is pretty well aspirin. Nevertheless, these people who spend these millions of dollars saying what you say can prove to you on the sales chart that it is affecting somebody.

Mr. THOMAS. Are you not going to the good old asset—I think it is an asset—old Yankee ingenuity? A man is going to puff his wares. How are you going to stay out of it? This man says, "My aspirin is three times as good as yours." They are all aspirin.

Mr. EVINS. The one I got said four ways. It went further.

Mr. THOMAS. Does anybody buy it because he thinks it is three times as good as the other, or does he just go in and say, "Give me some aspirin?"

Mr. DIXON. We make a very conscious effort to stay out of what you have described as puffing. Advertising says this automobile is better than another automobile, and all of these things. This is salesmanship. Nevertheless, when Congress passed the Federal Trade Commission Act in 1914 and buttressed it in 1938, it buried that old doctrine of caveat emptor, you know, "Let the buyer beware." That was a good old Yankee custom that we put out to pasture. We are the only country in the world, mind you, that has this code, you might say, of doing business. If you think that it has not been effective, just go abroad and pick up one of the newspapers and look at the "bamboozling" that is going on.

Mr. THOMAS. Caveat emptor still applies in most Government agencies. Take the field of housing, which we take a look at quite often in here. The Federal Government will insure a mortgage and may make a direct loan. Regardless of which agency is involved, the Federal Government does not guarantee, even though 90 percent of the purchase price is guaranteed, that the particular house is worth the money. After all, we expect you to go around and use your own judgment, look at it and pick the one you want, jump up and down in the middle of the floor and see if it rocks. If folks come back and say, "The floor is warped, and it is not worth the money," the FHA or no one else that I know of makes a guarantee on it. So, the old rule of caveat emptor applies right in Government operations, does it not? After all, we cannot put little diapers on everybody, can we?

Mr. DIXON. We surely cannot. I do not think what we try to do is put diapers on anybody. You charged us in the law to control unfair methods of competition, which will improve this, but then you added to it unfair and deceptive acts and practices, and then you added to it in 1938 some special responsibilities for false and misleading advertising on food, drugs, cosmetics, and devices.

We have a responsibility, we say, for housing. If a seller got to talking about his house being the absolute something, an absolute statement that was false, we have a responsibilty or else we call it to the attention of Housing or somebody else, but we have a responsibility there. I think I know what you are talking about. The Government does a whole lot of things.

Mr. ELMAN. If I might make a comment on your aspirin problem, the fact is that aspirin is aspirin, and they all work pretty much the same way. If a particular manufacturer of aspirin advertises falsely that his aspirin works four times as fast and is gentler on your stomach than other types of aspirin, and if he charges, let us say, a dollar

a hundred for his apirin, whereas his honest competitor who is not making these false claims sells his aspirin at 10 cents a hundred and makes a reasonable profit, that honest competitor is hurt, and also the consumer is hurt, if he is induced to buy that more expensive brand of aspirin which really is not any better for him. That is where the unfairness to competitors and unfairness to the public may come in.

Mr. THOMAS. Does not competion take care of those items, though? After all, is there anything out of line in the prices? I thought it was advertised as three times as good, but Mr. Evins says he heard on his radio some aspirin was four times as good. Does not competition take care of the price? Is the price differential large enough to amount to anything?

Mr. DIXON. In the realm of quackery, which you are getting over into, this is one of the prime examples, taking a common product like aspirin and saying elaborate things it will do, giving it another name or something, and instead of charging a minor price, charging a very high price. Then a person thinks it might cure a very harmful disease and he is in worse shape for having fallen for it. It is a terrible thing, Mr. Chairman, too. For instance, if you were selling aspirin and were to tell an outright falsehood about your aspirin, you would interject a competitive factor into the area. If you were not stopped, your competitor would have to sink to your level in order to protect his share of the market. If you cannot stop it, I have to say the same thing to protect myself.

PROTECTION OF CONSUMER INTEREST

Mr. OSTERTAG. This whole problem under discussion is predicated on fair competition or protecting business from other business. On the other hand, there is also this question of protecting the public, the consumer.

Mr. DIXON. That is the other end of the problem.

Mr. OSTERTAG. Which is it? Is it a dual purpose?

Mr. DIXON. Dual purpose properly describes it, sir. Yes, sir. This is certainly true. An unfair competition or an unfair practice is dual in its form.

Mr. OSTERTAG. Is there not a conflict in a case where the competitive aspect might be for the best interests of the public, say, for example, pricewise?

Mr. DIXON. I can take you back to one of the very fundamental reasons of the Wheeler-Lea amendment. Originally Congress passed the Federal Trade Commission Act in 1914 and said unfair methods of competition are hereby declared unlawful. You could be bamboozling the consumer and be the only person who had the product and it could not be unfair to competition, but still it would be harmful to the consumer.

So, the Congress came along and added to our statute, to the words "unfair competition in commerce," the words "unfair or deceptive acts or practices in commerce." This took care of the consumer. When that was brought in, that was the duality which we now have as our tool.

Mr. BOLAND. Getting back to the aspirin problem, you did not determine that three or four compounds other than aspirin were not as effective as the claims indicated. This was done, as I understand it, in Baltimore by some hospital. Did you spend money to investigate this?

Mr. DIXON. Let me recite this little occurrence. We observed at the Commission many claims being made that were questionable in the analgesic area generally. The Commission issued some complaints, I think three or four complaints.

Mr. BOLAND. How long ago?

Mr. DIXON. These were a year or so ago. In March 1961. What happened was this: For us just to question the thing was not enough sir. We have the burden to prove this by competent medical testimony, which usually includes clinical tests as well as opinion testimony. This means the necessity of having to obtain this type of evidence. To obtain the evidence, we contracted with two reputable doctors over in Baltimore, Dr. Lasagna and Dr. DeKornfeld.

Then the Commission observed another thing, that this was a little broader. We placed those four complaints on suspense. Then we sought other clinical evidence. We contracted with other doctors. We obtained the second one. This still was not enough, because we anticipated that we were going to have quite a battle here and we had to have evidence properly evaluated. We contracted for the third group. Not only is it difficult for a Goverment agency to obtain outside competent clinical evaluation, but doctors when they make these things for you, Congressman, want to publish. They not only want to be paid for them, but they are very proud of them and want to publish them.

These doctors in Baltimore started pressing to have this published and, as we turned to broaden this thing, our bureau director down there gave permission for them to publish this. It was a mistake for this to have been done. It was a mistake in judgment. But there are many things that can be said for it, because we have to live with doctors, too, on the outside. We have to get them to do other work with us. They published an article and report on their study in the AMA Journal.

Then Sterling Drug Co., the Bayer Aspirin people, seized upon this very report and they started hitting the television and newspapers with a crash campaign. Two weeks after that started, last Tuesday, we served a complaint upon Bayer Aspirin for the misrepresentation they had made, two weeks after they did it, and served notice on them we are on the way to the district courts to seek an injunction to stop it right now.

We are right in on this one. In other words, what is going on would appear to be a little game, you might say. One guy is over here saying something that apparently was taking something away from the Bayer Aspirin people, and when this study came out they turned around and took this. We have charged them with misrepresenting actually what that study said.

Mr. BOLAND. How did the complaints originate?

Mr. DIXON. It originated from the Federal Trade Commission against Bayer.

Mr. BOLAND. I mean the original complaint. Was there a complaint within the industry by people producing aspirin that their competitors said their compounds were more effective?

Mr. DIXON. To my knowledge, the original actions came from competitors.

Mr. BOLAND. How long have the doctors been looking into this? You hired the doctors to do the research. I commend the Federal Trade Commission for doing it. You cannot move unless you know the facts, and that is the way to do it. What did it cost to get this done?

Mr. DIXON. This one we are talking about cost $5,750. These things are difficult to come by.

(Off the record.)

Mr. THOMAS. Mr. Chairman, this is all very interesting. We will not rush you, we will stay all week if necessary, but then we want to look into your reorganization you put in effect 2 years ago, and we want to talk about the questionnaires you are going to send to the 1,000 large manufacturers, and so forth.

Mr. DIXON. All right, sir.

NATIONAL VOLUME AND COST OF ADVERTISING

When it is realized that advertising in the food and drug fields constitutes only a small part of the advertising for whose honesty and fairness the Commission is responsible, the problem of volume appears overwhelming. For example, the Commission has jurisdiction over the advertising of the Nation's largest advertisers, and there are 97 advertisers who spend more than 6 times as much for advertising as the Commission has funds to regulate—not just advertising but every other form of interstate selling where unfair or deceptive methods might be employed. Simply to spotcheck radio and television—419,265 scripts were scrutinized in fiscal 1962—and newspapers and magazines—278,741 pages—is a staggering job, and when to this must be added the investigation of more than 5,000 complaints from angry consumers and injured competitors, plus broad-scale corrective actions launched by the Commission on its own initiative, plus the checking of compliance on orders already issued, it is not difficult to understand why the Commission's Bureau of Deceptive Practices is hard put to be effective on its present budget of $1,249,500. Certainly an increase of $158,000 is warranted.

The plain truth is that the Commission will never be staffed sufficiently to assure that no deception will be practiced on the public. This obviously is a practical impossibility. However, reputable businesses, conscientious media, trade and better business organizations, and better informed consumers can exert really effective pressure against cheaters and tellers of half truths. What is needed from the FTC is more backstopping to halt the defiant and thereby encourage the self-policing efforts of private industry.

RESPONSIBILITY OF ADVERTISING AGENCIES

Mr. THOMAS. There is just one thing wrong with your statement, if I might interrupt. You have not brought in the Madison Avenue crowd.

Mr. DIXON. We were checking the other day and we now have outstanding an order or proposed order against every one of these gentlemen. We have pursued this course. Where we can find them responsible, we are holding them responsible. Of course, the court is holding us to a test. We have to show some initiative came from the agency itself. Where we find that, we move.

Mr. THOMAS. Go ahead.

INCREASED ECONOMIC REPORTING PROGRAM

Mr. DIXON. This budget also would provide a $145,000 increase for the Bureau of Economics, principally to make possible a long-needed strengthening of the Commission's economic reporting function. Historically, these reports have provided the basis for significant legislation as well as having brought into clear focus uneconomic or otherwise objectionable trade practices. They also have led to voluntary changes in the conduct of business which have benefited both industry and the public. Perhaps even more important they have proved to be reliable instruments in the measurement of monopolistic trends and their extent. And, unlike most other analyses available to businessmen, legislators, and the public, the Commission's reports are not only impartial but are based on factual information whose production can be compelled by law. How important it is to Congress and the business world to have solid information about business conditions, where the facts are free of partisan selection and interpretation, would be hard to overestimate.

COLLECTION OF DATA FROM 1,000 LARGEST CORPORATIONS

Plans also are now underway to expand the reporting program to permit the collection of detailed financial and product information from the 1,000 largest manufacturing and merchandising corporations. The collection of this data will permit the Bureau to classify and rank these largest companies by profit rates, by volume and type of products produced and sold, and by asset size. The project also calls for the annual collection of data on mergers and acquisitions made by each of these large corporations.

Mr. THOMAS. Where is your authority for that?

Mr. DIXON. Section 6(b) of the Federal Trade Commission Act, which was in the old Bureau of Corporations authority and was continued in the Federal Trade Commission Act. This was the authority to call on any corporation in interstate commerce to make to the Federal Trade Commission an annual report or a special report. We have the right to ask for this.

Mr. THOMAS. Does not the Department of Commerce have the same statute?

Mr. DIXON. I do not believe you would find in any other statute of any agency this power, because you must understand Congress gave this Commission some of its legislative authority.

Mr. THOMAS. What is the penalty for failure to comply under that statute?

Mr. DIXON. If there is a default, $100 a day until it is produced. This is the ultimate for a failure there.

Mr. THOMAS. What will be the purpose of this inquiry?

Mr. DIXON. Well, sir——

Mr. THOMAS. Everybody at this table, I am sure, gets ample letters every week complaining that the profit margin of all businesses is being squeezed to practically nothing, and one of the reasons for it, among other things, is the paperwork corporations have to do, fill out this questionnaire, fill out that questionnaire, and they say when they get through 10 percent of their overhead goes to filling out questionnaires sent out by the Government.

What do you hope to gain by this?

Mr. DIXON. I would think the benefits would come in three ways.

DUPLICATION OF REQUEST WITH OTHER AGENCIES

Mr. THOMAS. Is there any conflict with the Department of Commerce?

Mr. DIXON. No. Most of the information that Commerce and other departments receive—you mean the Census Bureau?

Mr. THOMAS. We call that Commerce.

Mr. DIXON. That is corrrect, but they obtain it under a very strict arrangement that they cannot tell anybody anything about it. It is not meaningful. You could not tell heads or tails. When somebody gives you something on a confidential basis, he will tell you to suit himself. Many of these corporations have many divisions of operation.

Mr. THOMAS. Do you mean your statute is broad enough to make it a violation of law if they comply with the filling out of the questionnaire and give you inaccurate information?

Mr. DIXON. Yes, sir.

Mr. THOMAS. There is a penalty for that too?

Mr. DIXON. Yes, sir. If we had reason to believe that was the case, we could put another hat on, so to speak, and we would have an investigation. We would issue an order for the right to inspect and if that was turned down we would go to court and ask the court to support us and give us an order. Congress has given us plenty of tools to use.

Mr. EVINS. The Bureau of the Census obtained a lot of information in the last decennial census that is available and can be obtained.

Mr. DIXON. Yes, but the Bureau of the Census does not tell you how they rate. The Census Bureau gave to the Senate Antitrust Committee some information but they said they had to break it down.

PRIOR COLLECTION OF SIMILAR INFORMATION

Mr. EVINS. Did you ever use this authority before on these same corporations?

Mr. DIXON. Yes, sir. The last time we did it was about 1950. That is when we made a report.

Mr. EVINS. In other words, this questionnaire is not unusual or novel and it is not a precedent in your Commission?

Mr. DIXON. No, sir. We had a Federal Reporting Act in 1942 and when we went for this information before we went through the same procedure.

Mr. RHODES. Will the gentleman yield?

Mr. EVINS. Yes, sir.

Mr. RHODES. Is the questionnaire under oath?

Mr. DIXON. The questionnaire must be affirmed under oath. In other words, we call it a special report.

Mr. RHODES. Is it admissible as evidence in a later hearing?

Mr. DIXON. We would offer it, sir. It is all under oath.

Mr. EVINS. Do you have statutory authority to seek it?

Mr. DIXON. We have statutory authority to seek it with only two reservations, that no names of customers or trade secrets can be made public. We can use it in a trial but the names of customers and trade secrets would be in camera. But we will write an economic report and make it public to Congress and the business community and the executive branch.

The purpose here is to understand, if you please, what is happening in our 1,000 largest corporations. We are charged, along with the Department of Justice, with the responsibility of enforcing section 7 of the Clayton Act, the antimerger section. We are asking to be advised of the number of mergers, the number of joint ventures, these corporations are in. We either have to have this information now or we have to obtain it if a merger takes place. If in any important industry in America a merger would take place, the Congress would have many problems before it, the executive branch would have many problems before it, as would your enforcement branches. You should not have to go to a rack and buy a Fortune magazine and pay a dollar for it to find out what are the biggest 500 corporations. That is what we have to do today.

Mr. EVINS. We thought you had that information in your economics division now.

Mr. DIXON. We do not have it current.

Mr. EVINS. Mr. Rhodes.

Mr. RHODES. Mr. Dixon, I would like to question you further about the use of the questionnaire. You say you would offer it in court. Would you offer it for truth of the matter asserted or as a matter of impeachment of a witness?

Mr. DIXON. We would offer it if it was pertinent to what was charged, and if it was under oath we would offer it for the purpose of proof, not to impeach.

It has been written in the paper that all we want this information for is for antitrust enforcement. If we had a particular case in mind of a law violation, we would there be investigating somebody for a law violation. The information we are seeking here is for a broader purpose than that. It may be it will lead to a law violation, but what we are seeking is information to draw an economic report to the Congress.

Mr. RHODES. The questionnaire I had in mind was the questionnaire you mentioned you had sent out to people in the merchandising business through which you ascertained that certain sales at Christmastime were effected by undue pressure on retailers. That is the kind of questionnaire I am talking about.

Mr. DIXON. It is the same basic power of section 6(b). We sought that information under section 6(b) for law-enforcement purposes.

Mr. RHODES. If you send me a questionnaire and I do not answer it, can you put me in jail?

Mr. DIXON. You are fined $100 a day until you comply.

Mr. RHODES. Suppose there is one question I do not answer. Do I have to answer the whole thing or be subject to fine?

Mr. DIXON. You have to answer the whole thing.

Mr. RHODES. Why do you not go to the law of deposition and discovery as a procedural matter and have the man come before you with his counsel and have the counsel object to the questions, if necessary, and handle this as a quasi-judicial tribunal should? This seems to me to be unduly oppressive.

Mr. DIXON. We have the right to seek information by deposition and discovery. But you have charged the Federal Trade Commission with an additional duty to not only bring charges against parties for law violation but to make the investigation upon which a determination of public interest can be made. It is this field we are talking about. There is a lot of difference between an investigation and an adversary proceeding.

Mr. RHODES. Do you think any questions you might have asked in your questionnaires might be a violation of constitutional rights against self-incrimination?

Mr. DIXON. Many people think so but the only law we have to administer is a civil law, and if we charge you with such an admission you are immediately immunized so you have all the constitutional protection written in the law. We may do a lot of people favors by asking a question and putting it in, but we are careful not to immunize people.

Mr. RHODES. Mr. Chairman, do you think it might be relevant to have one of those questionnaires submitted for the record at this point?

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

(The following draft of the questionnaire was submitted for the record:)

DRAFT QUESTIONNAIRE ON INTERCORPORATE RELATIONS

This is a copy of a draft questionnaire submitted to the Budget Bureau, December 6, 1962. Comments on this "draft" subsequently were solicited from the industry advisory council on Federal reports and various Government agencies. On January 16, 1963, staff members of the Federal Trade Commission and the Budget Bureau discussed the draft questionnaire with about 25 industry representatives. It is anticipated that many of the constructive suggestions made on the draft questionnaire will be incorporated in the final questionnaire approved by the Bureau of the Budget.

WILLARD F. MUELLER,
Director, Bureau of Economics, Federal Trade Commission.

Budget Bureau
No._____

Federal Trade Commission
Washington 25, D. C.

Report on Intercorporate Relations

This Report Is Required By Law. It is mandatory under authority of the Federal Trade Commission Act.

Complete and return one copy of this report form within _____ days to:

Federal Trade Commission
Bureau of Economics
Division of Economic Reports

Instructions:

a. Report all monetary amounts in United States dollars.

b. The data to be reported in Question 4, 5 and 6 should include information for the reporting company and its wholly-owned domestic subsidiaries.

c. An FTC Form B should be filled out for each company listed in Column 1 in answer to Question 8 and 9.

d. The answer for each item should be filled in on the form following the item. Additional blank forms, if needed for a complete response to this Report, may be reproduced by the company or obtained by writing to the FTC Bureau of Economics.

e. Reporting Company is the company to which this form is addressed and its wholly-owned domestic subsidiaries.

f. A foundation is any non-profit institution, corporation or fund established by reporting company and its wholly-owned subsidiaries, which is engaging in charitable, scientific or educational activities.

FTC Form A

FTC Code No._____

1. The company for which this report is submitted is (print or type):

_____
(Exact corporate name)

_____
(Street address)

_____
(City, postal zone, state)

2. The legal form of organization of the reporting company is (check one):

☐ Corporation chartered on _____ (month, day, year) in _____ (State)

☐ Other (specify) _____

Its operations began _____ (Date).

3. Since January 1, 1951, the reporting company (check and complete where applicable).

a. ☐ has operated without change in corporate name

b. ☐ was formed as a successor on _____ (Date) to _____ (Name and address of previously existing business)

c. ☐ was succeeded on _____ (Date) by _____ (Name and address of successor company).

d. ☐ sold its assets on _____ (Date) to _____ (Name and address of purchaser).

e. ☐ was merged on _____ (Date) into _____ (Name and address of continuing company).

f. ☐ made other changes in corporate name or corporate structure (Specify and give dates of changes):

_____

_____

4. Report below for each year indicated, on a consolidated basis, total gross receipts and total assets of reporting company and its wholly-owned domestic subsidiaries. (Data on a fiscal year basis will be accepted when books and records are not kept on a calendar year basis).

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
a. Total gross receipts ($000)													
b. Total assets ($000) at year end													
c. Fiscal year ending (month, day, year)													

5a. List in the appropriate column below, for the year 1962, using the five-digit census product code (Standard Industrial Classification Code), the ten principal classes of products of the reporting company and its wholly-owned domestic subsidiaries based on dollar gross receipts.

b. Report for 1962 the dollar gross receipts of each such class of product by the reporting company and its wholly-owned domestic subsidiaries.

c. Show the percent of total dollar gross receipts of said company accounted for by each such class of product.

Class of product	5-digit Census product code (SIC)	Dollar gross receipts ($000) of class of product, 1962	Percent of total gross receipts of reporting co.	Class of product	5-digit Census product code (SIC)	Dollar gross receipts ($000) of class of product, 1962	Percent of total gross receipts of reporting co
						Co. total: $	100.0%

6. The reporting company (check and complete where applicable):

☐ has no shareholder or beneficial owner of five percent or more of any class of outstanding securities of reporting co.

☐ has the following shareholders or beneficial owners, including corporations, pension funds, mutual funds, foundations, or other beneficial owners, of five percent or more of any class of outstanding securities of the reporting company:

Name of shareholder or beneficial owner	Mailing address	Securities of reporting company owned or held on 12-31-62				
		Class	Has voting rights (yes or no)	Convertible to voting stock (yes or no)	Number of securities owned or held in each class as a % of total securities outstanding in such class	Percent of voting stock

7. Report below exact corporate name and mailing address of each of reporting company's wholly-owned domestic and foreign subsidiaries as of December 31, 1962; and specify the particular type of operation which most clearly describes the primary business activity of each such subsidiary (for example; manufacturer of hydraulic turbines).

Corporate name	Mailing address	Primary Business Activity	Were its operations consolidated in reply to Question 4?	
			Yes	No

8. Report the information requested for all companies, domestic and foreign, of which reporting company, including its wholly-owned domestic subsidiaries, pension funds, or any other fund, foundations, corporations or institutions of the company, owned 50 percent or more of the voting stock on December 31, 1962. Do not include companies reported in answer to Question 7 above. List domestic and foreign companies separately. If reporting company did not own said shares in any company, check here /__/.

Complete an FTC Form B for each company you list in Column 1 below.

Col. 1 Name of company (Domestic)	Col. 2 Mailing address	Col. 3 Name of pension fund or any other fund, foundation, corporation or institution of the reporting company owning or holding stock of company listed in Col. 1	Col. 4 Percent of voting stock	Col. 5 State or country of incorporation
(Foreign)				

9. Report the information requested below for all companies, domestic and foreign, of which reporting company, including its wholly-owned domestic subsidiaries, pension funds, or any other fund, foundations, corporations or institutions of the company, owned 5 percent or more, but less than 50 percent, of the voting stock on Dec. 31, 1962. List domestic and foreign companies separately. If reporting company did not own said shares in any company, check here /__/

Submit an FTC Form B and the information requested in Questions 1 through 7 thereon, for each company you list in Col.1 below.

Col. 1 Name of company (Domestic)	Col. 2 Mailing address	Col. 3 Name of pension fund or any other fund, foundation, corporation, or institution of the reporting company owning or holding stock of company listed in Col. 1	Col. 4 Percent of voting stock	Col. 5 State or country of incorporation
(Foreign)				

If additional space is needed for any question attach separate continuation sheets. Each attached sheet should identify the question to which it refers.

Budget Bureau No._____ FTC Code No._____

FTC Form B Federal Trade Commission
Washington 25, D. C.

REPORT ON INTERCORPORATE RELATIONS

Name of Company Submitting Report (Reporting Company) is

Instructions:

a. Complete one copy of this form (FTC Form B) for each company listed by reporting company in Col. 1 of Question 8 of FTC Form A.

b. Submit one copy of this form (FTC Form B) for each company listed in Col. 1 of Question 9 of FTC Form A, and for each such company furnish only the information indicated in Question 1 to 7 inclusive of FTC Form B.

c. Subject company in Form B refers to company named in reply to Question 1 of Form B.

d. Instructions given in Form A are applicable to Form B. (For example, report all monetary amounts in United States dollars).

1. Give the corporate name and mailing address of the foreign or domestic company of which reporting company (including corporations, pension funds, foundations or other beneficial owners) owned 5 percent or more of the voting stock as of December 31, 1962 (excluding wholly-owned subsidiaries).

Corporate name_____

Mailing address_____

2. If any shareholder or beneficial owner is other than the reporting company, that is, a pension fund, foundation, or other shareholder or beneficial owner with which the reporting company has an ownership relation, list for each such shareholder or beneficial owner its name and ownership relation to the reporting company. Name_____

Ownership relation_____

3. Report in appropriate columns below the dollar amount of investment of the reporting company in the subject company at the time of initial investment and on Dec. 31, 1962; state the number of shares of stock, the percent of class of stock, and the percent of voting stock held or owned by the reporting company in subject company at the time of the initial investment and on Dec. 31, 1962

	Initial investment of reporting company in subject company. Date of initial investment _____ (month, year)				Investment of reporting company in subject company as of Dec. 31, 1962			
	Dollar amount	Number of shares of stock	Percent of class of stock	Percent of voting stock	Dollar amount	Number of shares of stock	Percent of class of stock	Percent of voting stock
a. Total investment in common and preferred stock (1 plus 2)								
1. Common stock								
a. Voting								
b. Nonvoting								
2. Preferred stock								
a. Voting								
b. Nonvoting								
b. Other investment (Specify types of investment) _____								
c. Total investment (a plus b)								

4. Specify the particular type of operation which most clearly describes the primary business activity of subject company (for example: manufacturer of machine tool accessories, book publisher, etc.):_____

5a. Did reporting company purchase any products from subject company in 1962? Yes ☐ No ☐

b. If answer to 5a is "yes", report below name of each such product purchased, the five digit census product code, the dollar amount of purchases of each such product by reporting company from subject company during 1962, and total dollar purchases of each such product by the reporting company during 1962.

Product	Census product code (SIC)	Dollar purchases ($000) from subject company, 1962	Total dollar purchases of product by reporting co., 1962

6a. Did reporting company sell any products to subject company in 1962? Yes ☐ No ☐

b. If answer to 6a is "yes", report below name of each such product sold, the five-digit census product code, the dollar amount of sales of each such product by reporting company to subject company during 1962, and total dollar sales of each such product by the reporting company during 1962.

Product	Census product code (SIC)	Dollar sales ($000) to subject company, 1962	Total dollar sales of product by reporting co., 1962.

7. In 1962 did the reporting co. produce any product within the same five-digit census product code (SIC) of any product of the subject company? Yes ☐ No ☐

8. If the answer to Question 7 is "yes", list below each such product, the five-digit census product code, and the dollar gross receipts of each such product for the reporting company and for the subject company for 1962.

Name of Product	Census product code (SIC)	Dollar gross receipts ($000), 1962	
		Reporting company	Subject company

9a. Total assets of subject company as of Dec. 31, 1962 were: $_____

b. Total dollar gross receipts of subject company in 1962 were: $_____

c. Were the total assets and gross receipts of subject company consolidated in total assets and gross receipts of reporting company reported in Question 4 of FTC Form A? (check one) Yes ☐ No ☐

10. Report corporate name and mailing address of each and all other companies that owned 5 percent or more of the voting stock in subject co. as of Dec. 31, 1962, and give percentage of voting stock in subject co. owned by each such co. on said date.

Corporate name	Mailing address	Percent	Corporate name	Mailing address	Percent

11. List below for 1962, using five-digit census product code, the ten principal classes of products of subject company based on its dollar gross receipts; dollar gross receipts for each such class of products by subject company and percent of total gross receipts of subject company accounted for by each such product class.

Class of Product	5-digit Census product code	Dollar gross receipts ($000) of class of product, 1962	Percent of total gross receipts ($000) of subject co.	Class of Product	5-digit Census product code	Dollar gross receipts ($000) of class of product, 1962	Percent of total gross receipts ($000) of subject co.
						Subject co. total:	100.0%

If additional space is needed for any question attach separate continuation sheets. Each attached sheet should identify the question to which it refers.

USE OF INFORMATION OBTAINED

Mr. THOMAS. If I might interrupt, Mr. Rhodes, what is the purpose of seeking all this information? What difference does it make whether Henry Ford does one-half or two-thirds of the business of General Motors?

Mr. DIXON. What would be the purpose of this, sir?

Mr. THOMAS. Yes.

Mr. DIXON. Well, I think this information would be perhaps very interesting to you.

Mr. THOMAS. It is not to furnish entertaining reading?

Mr. DIXON. It is not to furnish entertaining reading. It is to decide what share of the market, in the case of the automobile industry, General Motors has, what share Ford has——

Mr. THOMAS. Is that the purpose of it? You say:

> Plans also are now underway to expand the financial reporting program to permit the collection of detailed financial and product information from the 1,000 largest manufacturing and merchandising corporations. The collection of this data will permit the Bureau to classify and rank these largest companies by profit rates—

Are you going into the ratio of profit to capital invested?

> by volume and type of products produced and sold, and by asset size. The project also calls for the annual collection of data on mergers and acquisitions made by each of these large corporations.

Your last statement is perhaps right up your field.

Mr. OSTERTAG. Do you have jurisdiction over mergers?

Mr. DIXON. We do.

Mr. THOMAS. But you are going on a wild goose chase to find out the financial standing of these corporations. Are you not overstepping your authority? Your last statement, it seems to me, is rather in your jurisdiction, but in addition to that information you want the other information, "annual collection of data on mergers." Suppose the corporation writes back, "I am not figuring on merging." What is the purpose of all of this? The Commerce Department asks them about the capital investment, and the Bureau of the Budget wants information on profits. Are you not duplicating?

Mr. DIXON. We think not, sir. The principal thrust of this questionnaire is to determine in a company——

Mr. THOMAS. There was a committee set up at the White House or somewhere in the executive department about factual information.

Mr. DIXON. They have had such a meeting last week.

Let me clarify the record in this respect: On this questionnaire going to the 1,000 corporations, we are not calling for it to be submitted under oath. We are not asking for this to be affirmed. The only penalty here that would accrue if it was not returned would be the penalty of $100 a day.

DATA OBTAINED PREVIOUSLY

Mr. THOMAS. Is this the first time you have undertaken this activity?

Mr. DIXON. No, sir.

Mr. THOMAS. What have you done in this field before?

Mr. DIXON. Since 1950, we have not attempted to try to evaluate the intercompany relationships, principally of these 1,000 large corporations. We think it would be quite beneficial for us to have this information.

Mr. THOMAS. Twelve years ago you did it?

Mr. DIXON. Yes, sir.

PURPOSE OF QUESTIONNAIRE

Mr. OSTERTAG. The chairman asked what purpose does it serve. I do not know that you have given us a clear-cut picture of what would ultimately be the purpose of these questionnaires.

Mr. DIXON. It could have many purposes. The principal purpose would be, I think, for a study and evaluation of this information as it comes in, and if it is considered pertinent a report could be written on it addressed to the Congress or to the Government at large.

Another purpose would be, when we meet our day-to-day problems in the merger field, we would have this information readily at hand, it would be there for us to use.

I think very often, Mr. Chairman, when the Federal Trade Commission or any other agency comes up here and says to you they want information from the business community, you hear, perhaps with some justification, that this is harrassment by the Government, that it costs them a lot of money to comply, and that they ought to be relieved. I want to tell you it is pretty hard to enforce an antitrust program in a vacuum. I have even seen the charge made that if they give this information it will help the Communist cause. I have seen every kind of statement made.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. BOLAND. How much do you have for this activity?

Mr. DIXON. A measly $145,000. This is for the entire Bureau of Economics. I married it to the antitrust field.

Mr. THOMAS. They were married before and got a divorce.

Mr. BOLAND. May I say this: As I read this paragraph, it emphasizes the fact that you want to "expand the financial reporting program to permit the collection of detailed financial and product information." And you say, "The project also calls for the annual collection of data on mergers and acquisitions made by each of these large corporations." We do not know just what you want to do with it.

Mr. OSTERTAG. I raised the question as to what purpose it serves and I have not learned of any real purpose coming out of this discussion. When it comes to the matter of merger, that is another matter, but every company in America is not merging and therefore when and if a merger is in order, this type of information might serve a purpose.

Mr. DIXON. Doctor Mueller passed this up to me and I think I will let him expound on this when I am through. We do not know who owns whom in the American manufacturing industry. We do not know exactly what corporatiton owns what. We do not know what interest they have in everybody else.

Mr. RHODES. Whose business is it if they are not violating any laws?

Mr. DIXON. They might be breaking all kinds of laws right and left. Let us go to a joint venture. Let us say you and I sell widgets.

We are competitors. We set up Company X. You own 50 percent of it and I own 50 percent of it and we both let Company X sell our products. Is that competition?

Mr. RHODES. You left an important element out. You have to have one selling either higher or lower than the market. If not, whom have they hurt?

Mr. DIXON. We do not know this.

Mr. EVINS. Can you not get some of this information from the Department of Commerce and can you not confine your questionnaire to the question of mergers?

Mr. DIXON. The information submitted to the Department of Commerce is confidential.

Mr. EVINS. It is published.

Mr. DIXON. A lot of it has been published.

Now, Dr. Mueller, will you answer these gentlemen? Maybe you can explain it better than I have.

ITEM NOT ALLOWED BY THE BUREAU OF THE BUDGET

Mr. MUELLER. I will try to clarify several points. First, I must apologize for not having reread this introductory section.

The third complete paragraph on page g discusses a new program which we proposed to the Budget Bureau but for which they did not provide funds. However, the Commission last year, in its budget justification to the Budget Bureau and to this committee, mentioned a proposed study of intercorporate relations and joint ventures, particularly. As part of this study we have before the Budget Bureau a draft questionnaire that would go to the 1,000 largest industrial corporations and would obtain information on their intercorporate financial relations.

The product information will not be very burdensome. The main purpose of the product information is to give us a better idea of the chief products these companies sell. The final format of the product question is not decided because the Industry Advisory Council on Federal Reports and about 12 Government agencies have made suggestions on this and other questions.

SECURITIES AND EXCHANGE COMMISSION REPORTS

Mr. THOMAS. When was the Securities and Exchange Commission created?

Mr. GLENDENING. About 1933.

Mr. THOMAS. Thirty years ago. It is the exception rather than the rule that these big corporations have not met with the Securities and Exchange Commission in those 30 years, so there is some information over there?

Mr. MUELLER. Some information is available. We have used it extensively in our investigations and reports. However, it is extremely inadequate in many respects. About 200 of the 1,000 largest companies are not registered with the Securities and Exchange Commission. And secondly, SEC requires information on affiliated companies which is very fragmentary, and corporations need report nothing on companies which, according to SEC definitions, are not

"significant" subsidiaries, which is defined as companies with assets or sales 15 percent, or less, as great as the parent company. For a large corporation such as General Motors or Standard Oil, this means that they would not have to report on subsidiary companies with assets or sales as large as $1½ billion.

There are a number of other points on which SEC records also are inadequate, in our judgment. They usually report only the names of affiliated companies and report very little information on companies owned or controlled by the parent company but which are domiciled abroad.

In our questionnaire we have scaled it back to the point where we would get primarily information which is not now available from other sources.

I should emphasize further that the burdensomeness of this questionnaire, when it is finally approved by the Budget Bureau, will be considerably less than most questionnaires we send out in connection with economic investigations in connection with particular cases, and also considerably less burdensome than the questionnaires which have been sent out over the past 10 or 12 years in connection with various economic reports such as the food studies, the antibiotic studies, and others.

PRIOR REQUEST OF INFORMATION

Mr. EVINS. You say you have asked for this information before and this is just bringing it up to date? Is that substantially correct?

Mr. MUELLER. We have asked for this type of information before. We have never asked for information as to the intercorporate relations to this extent. We did once ask for more, extensive information for a study entitled, "Industrial Concentration and Product Diversification in the 1,000 Largest Manufacturing Companies." This was essentially a census of product information for the year 1950. This was an extremely large study.

Mr. THOMAS. Your inquiry is pointed in one direction, the financial structure?

Mr. MUELLER. That is the main point.

Mr. THOMAS. We think you are going a little far.

OBTAINING INFORMATION ON MERGERS

Mr. ELMAN. I wonder if I could answer what purpose is served. I would like to say from the standpoint of our responsibility, our law enforcement obligation, we deal not only with mergers, we deal with price discrimination, we deal with exclusive dealing arrangements, and other business practices that come within our jurisdiction, and Congress has not declared all of these things illegal per se automatically. Congress has said to us they are illegal only if they tend to create a monopoly or lessen competition. So we have to look at an arrangement against the particular industry, the organization, the market, and so on.

If we had no information at all except what we read in the paper of a merger between A and B and we wanted to know if it was a significant merger or a pretty one——

Mr. THOMAS. Did you get the authority you have been seeking for 10 or 15 years from the Judiciary Committee to get information in advance of mergers?

Mr. DIXON. No, sir.

Mr. ELMAN. If the Commission wants to get this information we have authority to go after the particular people in industry and ask them to get the information on an ad hoc basis.

Mr. OSTERTAG. Why do you not do that?

Mr. ELMAN. Or we can issue a complaint and proceed with discovery and deposition. But if we did that and operated more or less in the dark there is a danger we would be harassing people needlessly. We would be issuing complaints we would not have needed to issue if we had the information at hand. We want to know what the trend is in the industry, is everybody in the industry merging, or is the merger of no significance. The whole purpose of getting this information is to enable the Commission to determine what is significant and what is not significant and to use our money most effectively.

Mr. DIXON. May I say one thing, sir?

Mr. THOMAS. Of course the most expensive method I could think of would be to go to depositions based on suspicion, but on the other hand writing questionnaires to 1,000 people, you will turn them upside down and have them all writing in here. Is there not some better method? If you have reason to suspect that X Corp. is getting out of line, can you not take it up with him by mail and then by deposition based on some reasonable evidence?

Mr. ELMAN. You get back to the question of regulatory lags.

Mr. THOMAS. You have been delaying 12 years and you have been doing pretty well, have you not?

Mr. ELMAN. We have been doing as much as possible.

Mr. THOMAS. What about these bank mergers? Whose jurisdiction is that?

Mr. EVINS. The Comptroller of the Currency.

Mr. DIXON. Justice has some jurisdiction.

Mr. THOMAS. Justice stepped in on one the other day.

Mr. DIXON. To answer Mr. Rhodes, the Assistant Attorney General in charge of the Antitrust Division, Lee Loevinger, called me the day before this conference was held in the Budget Bureau, and wanted to go with me and make a joint plea that we be allowed to do this. The Department of Agriculture wrote me a letter day before yesterday and requested that the packers be included. Vested in the Federal Trade Commission was the responsibility to have this expertise. For us to have this expertise I know of no better way than for us to seek this information. It is difficult for us to answer Congress or anybody else as to what is the trend in an industry. You have given the responsibility to us to prevent these unlawful mergers and we should know something about the trend to approach the problem. I think the sum and substance of what we are saying here is a feeble attempt to get some of the information at hand that we ought to have, and I do not think it is burdensome on the corporations.

Mr. RHODES. If I were head of the Antitrust Division I would feel that way too, because it is a way to get information without an attorney being present, without any possibility of anyone objecting to the questions asked. It is a beautiful way to secure information in the

most oppressive way I can think of. I would like to see the questionnaires.

Mr. BOLAND. With respect to the questionnaire we are talking about, how often will you send it out, every year?

Mr. DIXON. This questionnaire, to be meaningful, would have, in my opinion, to be followed up to stay abreast of what is happening in these industries. If we do it every 12 years or every 10 years you have a hallmark.

Mr. THOMAS. You start with an annual report and then a semiannual report and a 3-month report.

Gentlemen, let us get something to eat. While you are gone, review your reorganization plan you put in effect 2 years ago. This has been very interesting and very helpful. Come back at 1:15.

AFTERNOON SESSION

Mr. THOMAS. Mr. Chairman, we note that our distinguished friend, Mr. Sheehy, is absent. Is he ill?

Mr. DIXON. During the Christmas holidays Mr. Sheehy was visiting his wife's family in Connecticut and had a minor heart attack. As of yesterday the report was that he was able to get out of bed.

Mr. THOMAS. We are sorry to hear that. We hope you will extend to him our best wishes for an early and speedy recovery. These hearings are not complete without him around.

Tell him we miss him very much.

Mr. DIXON. I shall be glad to transmit that message.

Mr. THOMAS. Mr. Chairman, I think you had not finished your observations.

Will you proceed?

PROMOTION OF EMPLOYEES

Mr. DIXON. I have only two small paragraphs left, Mr. Chairman, in the general summary.

Mr. THOMAS. We are familiar with that material but we will insert it in the record at this point.

(The material referred to follows:)

Still another increase needed is of importance far beyond its amount, $100,000. Most of this will be used to provide for annual promotions of qualified professional people in grades GS–7 through GS–11, but it also would provide for others who are entitled to promotions. Aside from considerations of fairness and recognition of performance, the promotion of young attorneys is a grim necessity lest the most able be pirated away by private law firms and corporations.

As was stated previously, the increased funds provided by this budget are not sufficient to meet the anticipated workload unless the present staff can be made to accomplish more work and faster. Thus, the Commission must emulate the turtle that succeeded in climbing a tree; it couldn't but it had to.

REORGANIZATION OF COMMISSION

Mr. THOMAS. Tell us something about your reorganization. How it is panning out? What are your hopes and expectations?

Mr. DIXON. As we explained last year, what we had done and why we reorganized the Commission, our purpose in doing this was to attempt to do as much as we could within our inherent powers to eliminate this so-called lag.

Basically, as we told you then, we have organized the Commission principally on a functional basis.

Our purpose was to keep from duplicating so far as possible, to have matters which come to the Commission handled principally by one of the enforcement bureaus so that we could use all of the powers we had in the beginning and have a close working relationship with the field and send them those matters we had to have developed in the field and get them back quickly.

Mr. THOMAS. Which bureaus did you reorganize? Recount your steps.

You took the Bureau of Restraint of Trade and the Bureau of Deceptive Practices and the Bureau of Textiles and Furs, and then the Bureau of Field Operations. That was the size of it; was it not?

Mr. DIXON. We had basically a Bureau of Investigations and a Bureau of Litigation. Inside of the Bureau of Litigation were those matters of litigation which encompassed deception, antitrust, and textiles and furs.

Heretofore, when matters came to the Commission they went immediately to the Bureau of Investigation. There it was broken down and those matters which had to be developed were developed by sending it to one of the field offices for complete development and review. It was re-reviewed in the Commission, in the Bureau of Investigation, by what was called a project attorney.

Then if it was felt that the matter was worthy of a complaint it was sent down to litigation, it was reevaluated, and often we found there was a difference of opinion. Work would either be sent back or another type of investigation would occur.

We thought this was taking too much time, so what we have done was to make the Bureau of Field Operations a service bureau, in a sense, to develop a partner of the very development. These men not only participate in the building but as we changed our rules of practice——

Mr. THOMAS. You put your development work in the field and their primary purpose is to serve your three enforcement divisions?

Mr. DIXON. That is right.

Mr. THOMAS. Inside that enforcement division you have a complete unity, and it tends to all of its business, period.

Mr. DIXON. That is correct.

Mr. THOMAS. That is the sum and substance of the reorganization.

Mr. DIXON. That is right.

RESULTS OF REORGANIZATION

Mr. THOMAS. How is it working out?

Mr. DIXON. Working very well. We have great hopes as we enter 1964 that we will begin to see the fruits of the results, to really begin to see that.

Mr. THOMAS. When was the reorganization instituted?

Mr. DIXON. June-July of 1961.

Mr. THOMAS. It has been in operation about 20 months now?

Mr. DIXON. That is correct.

Mr. THOMAS. Twenty months is a long time, you should begin to see what it can do and what the result is.

Mr. DIXON. As we turn and take each of the bureaus, we will find we have investigated more and we have brought more complaints, that is on just sheer numbers.

However, in addition to this reorganization I want to impress you with this—that where we took those cases one at a time, now the bureau itself is under a direction to develop cases on an industry basis.

I knew that when we did this that I must take the responsibility, or the Commission must take the responsibility, for kind of a lag, because more things were in that category and are there right now.

We have a look now at the drug pricing situation. We have a situation which was discussed more fully in the wearing apparel industry. We have on the deceptive side several of these industries in the analgesics, hemorrhoid treatment, and so on. It takes longer to develop a group than it does one item, but we felt as we passed through our new procedure of rule development, where we offer to every party with rare exception the right to enter into consent negotiations, a larger and larger number of our cases being consented to because of this opportunity.

We took away much of the lag when we took this problem away from the hearing examiner. This frees him up for the purely adversary case.

Yesterday we had a very quick check to see how many matters we had heard before the Commission. This is the final appeal, and everything else, compared to the last 5 years. We heard 87 final arguments before the Commission last year. This was about twice as many as there had been in any one of the prior 4 years, so these matters have become unclogged.

EFFECT OF REORGANIZATION ON HEARING EXAMINERS

Mr. THOMAS. What effect did that have on the hearing examiner?

Mr. DIXON. It has freed them. When I came there, there was a load of more than 300 formal cases. It is now more manageable. They are available now when the adversary case comes to get on to the job so they don't have to delay a case for a year and a half before they even start with it.

Under the old procedure the hearing examiner may have 30 cases or more. He might have 1 day on one case, 2 or 3 days on another one. This hit-and-miss procedure dragged the cases out.

Our rules now provide that they are to try to set down these cases at a time, place, and date certain and hear them until they are completed. This is our policy and we are adhering to it pretty well.

A case came to my attention recently which was tried, a very difficult antitrust case, tried completely in 6 or 7 days.

I have seen cases still coming to the Commission which under the new rules might not now involve more than 9 or 10 days but in the old days it took several years.

Mr. THOMAS. I think you have something in the reorganization. Certainly it expedites the movement of a case. Heretofore you had four or five blocks in each one. You had to satisfy this group and that group, and there is always room for differing opinions.

VOLUME OF ENFORCEMENT CASES

Which of the three enforcement bureaus does the largest volume?

Mr. DIXON. In volume I would suppose the Deceptive Practice Bureau comes closest. Antitrust cases do not of nature come as often. They are more complex and more vigorously contested.

Coming up fast is the Bureau of Textiles and Furs. They have done a remarkable job in the last year and a half since I have been there.

Mr. THOMAS. The subject matter is not as complex as in the other?

Mr. DIXON. That is correct. Take the Bureau of Textiles and Furs—they used to be down in the general litigation staff. The general view was "You have a tougher case and a harder case here," so you can——

Mr. THOMAS. Let us look at the green sheets.

Mr. DIXON. Perhaps we put them in the wrong place. The last sheet behind each of those agencies is the green sheet.

Mr. THOMAS. I surely overlooked that sheet.

Mr. GLENDENING. That is also shown on the insert chart of the Commission, Mr. Chairman.

Mr. THOMAS. This sheet is the sheet we want. I overlooked it.

Mr. OSTERTAG. That is the personnel?

Mr. DIXON. As of December 31, 1962.

Mr. THOMAS. Any general questions?

Mr. DIXON. Mr. Chairman, I would be remiss if I did not say this to you:

RATE OF EMPLOYEE TURNOVER

The last two paragraphs in my statement had to do with money requested, $100,000 for promotions.

I had these figures hurriedly handed to me, but during fiscal year 1962 at the Federal Trade Commission I hired 513 employees. We lost 242.

The first half of 1963 we hired 151 and we lost 143.

In the month of January we hired 21 and lost 18.

I know that Congress has certainly taken a step to do something about this in the way of salary adjustments and salary increases. Much of the moneys in here will go toward that.

The personnel for each bureau is set forth in the justifications.

I hired by necessity since I came to the Commission. You will remember we had about 800 employees. This Congress has given us moneys and approved 1,178 as of last year.

A lot of young people have come with us. A lot come, stay a short time, and leave.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

PROJECTED SIZE OF STAFF

Mr. DIXON. I felt all along that an honest appraisal of the tremendous responsibilities that Congress has charged us with requires us to have an adequate personnel. I do not think I am empire building. I don't know whether my other Commissioners feel that way.

I was asked one time by the executive department for a 5-year range of this thing. I said I thought within 5 years the Commission could double itself, which would be 1,600 employees, and over that time we should be adequate to do our job and it ought to come to the Commission gradually, because if we got it all at once we could not absorb it.

With the increased salaries and the ability to charge these young attorneys that come to us with responsibility, I think they are beginning to find the challenge they want. If they do a good job of recognizing this, and with encouragement by raising their salaries, I think we can hold more and more to do their job.

We will never be able to compete with large corporations and law firms on salaries. We know that.

Nevertheless, Congress has been most kind in the way of salary increases. I know this will help us.

The young attorney is coming more and more to the Federal Trade Commission. I am told as they come there that in the law schools now we have a fine reputation. They say they are told if they come there they will get more experience and actually get the work of being an attorney. This is a challenge to them.

I am trying more and more to determine whether they will stay at least 4 years. I would like to have at least 4 years out of them if I can.

One may be quite honest and he says "No, I will look elsewhere."

Of course, if he says he will stay 4 years and then stays only 2, there is nothing we can do about it.

I think if you will allow us to grow gradually, not in leaps and bounds, we should be able to do the job we should do within several years.

EMPLOYEE TURNOVER—ATTORNEYS

Mr. OSTERTAG. In your turnover where do they go? Do they go into private business, private practice, or going with corporations and other outlets?

Mr. DIXON. Corporations and into the larger law firms.

Take the Chief of my Merger Division. After about 10 years he looked behind himself and had 4 or 5 children to educate. He was offered a salary that is more than anybody in the Congress or down in the family of enforcement agencies makes.

I have had men come in with 5 or 6 years' experience and say they will get $18,000 plus stock options to go with corporations.

As these young men oppose these giant corporations, if they make a fine presentation, you can go to no better place to find talent than into the Government. The Government has become the greatest reservoir of talent for the corporations and law firms in America. This is a good training field.

I have thought honestly, and I have said this in several places, that one of the best ways in my mind to solve the problem of taking my young attorneys away, and the problem of the older attorneys, educating his children, would be a scholarship arrangement so we could keep the talent of the Government.

I don't know how we can ever do it, but this seems to be the thing that takes my boys away.

Mr. EVINS. You get far afield when you advocate a tax reduction as well.

Mr. DIXON. The boys say "I have four kids now. They have to go to college several years from now."

I have two. I have to sweat it out some way.

Mr. OSTERTAG. What is your turnover?

Mr. DIXON. Included in these figures we have stenographers, secretries, and so on. I gave a figure that in the complete fiscal year 1962 we hired 513 and lost 242. That is about 50 percent of those hired.

In the fiscal year 1963, I hired 151 and lost 143.

Mr. OSTERTAG. How many were new positions?

Mr. DIXON. I haven't broken that down. They are attorneys, economists, statisticians, and secretarial help.

Mr. JONAS. Your figures don't show whether the losses came from the new hires, though. You have an attrition problem here irrespective of newcomers.

Mr. DIXON. We have a normal attrition problem.

Mr. JONAS. That is 15 percent.

Mr. DIXON. One who was there 5 years ago can walk around the halls of the Federal Trade Commission and he would hardly recognize the faces there today.

Mr. JONAS. You have some here who have been with you 30 years.

Mr. DIXON. Thank God. These are the last of the Mohicans, sir. This group came to this Government during the thirties when the best jobs one might find were in the Government. Many of these attorneys now are leaders here.

I came in in 1938 and I am still in the Government.

The younger attorney coming in now does not have to seek a job in the Government. He can find nearly as good a job starting right off without coming to Government. He comes here to seek a specialized knowledge. Antitrust is the most productive of all the law practice. This is the big pay.

They love to have this experience, as they do in the tax field, for instance.

This is an excellent place to get exposed to it, work at it, and learn it.

Really, a man is of real value to your Government as a lawyer only after he has had about 4 years' experience. Then he is ready, in a sense, to fly and take responsibility.

If you keep him 4, 5, 6, 7, or 8 years, or 10 years, he is getting up in his midthirties, and someone offers him triple the salary, then you may lose him.

Mr. OSTERTAG. Isn't that true in Government generally? That is true in the highly specialized fields, even in the military. Literally thousands of our military officers are leaving the service for private enterprise particularly in the field of defense production. It applies in communications and in all other fields of regulatory matters of Government as well.

I don't believe you are undergoing anything unique in the Federal Trade Commission as compared with a number of other fields.

Mr. DIXON. I do not say we are.

SIZE AND COST OF FTC OPERATIONS

Mr. OSTERTAG. In connection with the overall picture, I have held a strong feeling of respect and admiration for the job that the Federal Trade Commission has carried on over the years. I believe it has been very commendable and it has been a necessary and laudable function.

However, it seems to me that you are expanding and embarking into areas which will take from you some of this good, rather than help it. I just have that feeling that you are developing your responsibilities in such a broad way which might lend itself to the prevention of these abuses and it seems to me that your very existence and operation in and of itself, serves that purpose. As long as you do it effectively and appropriately that would be it.

You said a few moments ago that you are not an empire builder. I am just wondering where we are going to end in the growth and expansion of all these agencies which seem to be starting from scratch but there seems to be no terminal facility as to size, growth, and expansion.

Mr. DIXON. The Federal Trade Commission is charged broadly with policing the free enterprise system and our overall economy, with those exceptions you have mentioned.

In 1938, when I came to the Commission, there were about 600 employees.

The gross national product of this country has increased since that time by about three times. The population has grown tremendously. In other words, this is a fluent country. The problems of our free enterprise system to keep it free are tremendous in perspective.

When I think of the fact we have 1,178 authorized employees to police a competitive society and see that it is fair, I am astounded with the responsibility, what the sum of money you have invested to protect that freedom.

Perhaps the Commission should have been 10,000; I don't know. All I know is that far behind in empire building is this Commission with its responsibilities.

We are using all our ingenuity within this framework, and all around us, and with all these problems someone must enforce the law. We are one of those enforcement arms of the Congress.

With the economic problem which seems to be the "bur under the saddle," we were the orderly successor to the Bureau of Corporations which was purely economic, which had one function, to investigate and to report.

Then in the wisdom of Congress to fill out the field they created the Commission and put that function in.

Operating as an arm of the Congress, think of the acts you have passed in Congress which came from the economic studies of the Commission—Federal Power, SEC, Packers and Stockyards, we can name them for you one after another. This came from that reservoir of knowledge we were talking about here.

I came back to the Commission and found the Economic Bureau somewhat in ill repute. The economists did not want to come back in.

I find a strange thing. I go to the Budget Bureau and ask, "Why don't you build the economic staff? The economic advisers to the

President want this information. Why don't you do what you are supposed to do?"

With that prodding they give me money.

I come to Congress and Congress says "Why don't you forget that?"

I am caught in the switches, gentlemen. One says we are not doing our job here and the other says "Why don't you do it over here?"

We have the responsibility to the Congress, to the executive branch, to the business community, and to law enforcement. We are supposed to be five experts.

I think you have a good Commission now. I came as a boy in 1938. Mr. MacIntyre was a boy in 1930. Mr. Elman was a boy in 1940. Now we have our newest boy in Leon down here.

Mr. OSTERTAG. The size of the Commission is one thing, and the number of people it requires and the cost is something else.

You relate this to the gross national product. Of course, that is a good barometer to some extent as to the amount of business, but this ever-growing Government of ours is something which is a serious problem from the standpoint of costs of operation as well as the servicing and policing.

This year we are faced with a $12 billion deficit. Certainly our economy is not keeping up with the cost of Government or we would not be faced with these deficits.

Taking your own argument, there is an imbalance.

My only point is that it seems the Federal Trade Commission, which I applaud and which I am not condemning—but this question of expansion and growth is something about which we must give serious consideration.

Some agencies within this Government of ours have remained fairly stable and yet they are doing an efficient job—yes, many times they do a much better job compared to the others.

I do not believe your effectiveness or your importance can be measured by your size.

Mr. DIXON. We are charged with deciding what is in the public interest. We are not tied to the mail bag, but we are getting 7,000 pleas.

When you have so few bodies to attend to pleas, you are harder and harder put to attend to the selection.

I find it difficult to say "No" to an honest businessman, whether he is small, middle, or large, who says "This is happening to me. I think it violates the law. Won't you do something about it?"

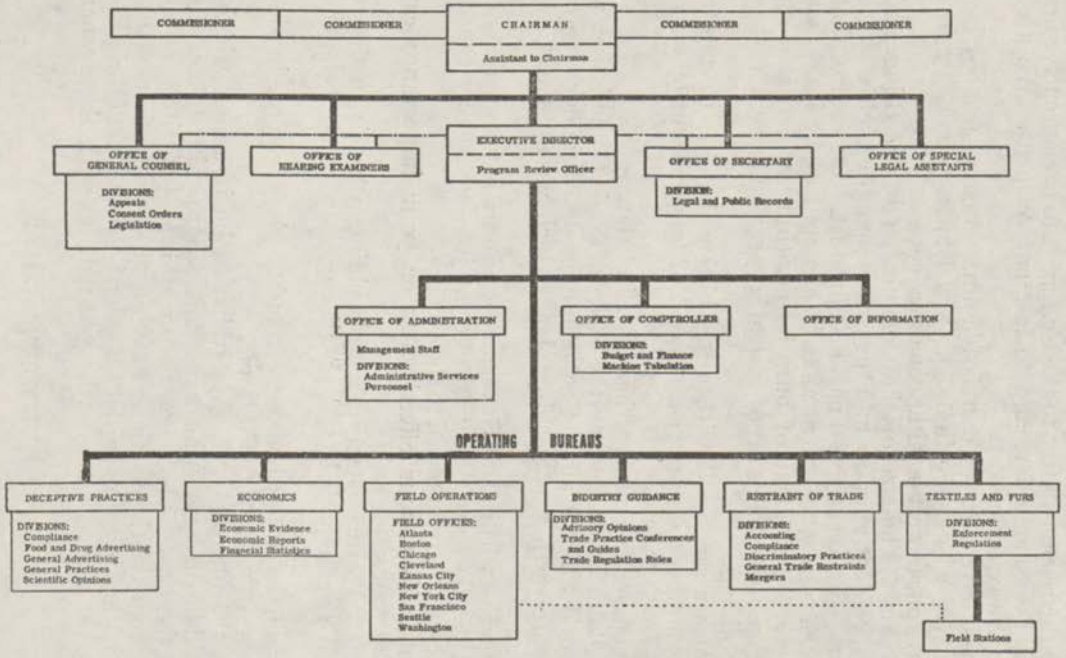
We have to make the election of saying "This is less important than that one." Who is to make that election? It is a tough decision to have to make. I don't know what we will do with those where we cannot elect.

ORGANIZATIONAL CHART

Mr. THOMAS. Let us get down to the estimates and begin by inserting the organization chart in the record.

(The chart referred to follows:)

FEDERAL TRADE COMMISSION



Approved: Paul R. Dixon
Chairman

November, 1962

STATUTORY AUTHORITY AND DUTIES OF THE COMMISSION

Mr. THOMAS. Insert pages 2, 3 and 4 in the record showing the Commission's jurisdiction.

(The pages referred to 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 Trade-Mark 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 preventon 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 oleomargarine 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 Trade-Mark 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 disclosue in labeling and advertising of textile fiber products. Under its terms, misbranding as well as false and deceptive advertising of textile fiber products in 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 manmade 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 SALARIES AND EXPENSES

Mr. THOMAS. This is an excellent table on page 10 showing a breakdown of bureaus for 1963 and 1964.

(The page referred to follows:)

Comparative summary—Salaries and expenses, fiscal year 1963 with requested funds 1964

	Allotment, fiscal year 1963				Funds requested, fiscal year 1964				Increase requested, fiscal year 1964			
	Positions	Personal services	Travel and other	Total	Positions	Personal services	Travel and other	Total	Positions	Personal services	Travel and other	Total
Commissioners' offices	33	$359,000	$11,000	$370,000	33	$372,000	$11,000	$383,000		$13,000		$13,000
Office of Executive Director	83	561,000	4,000	565,000	87	614,000	4,000	618,000	4	53,000		53,000
Office of Comptroller	30	192,000	46,000	238,000	33	213,000	61,000	274,000	3	21,000	$15,000	36,000
Office of Secretary	48	269,000	1,000	270,000	53	304,000	1,000	305,000	5	35,000		35,000
Office of General Counsel	55	525,000	11,000	536,000	57	574,000	12,000	586,000	2	49,000	1,000	50,000
Hearing examiners	39	431,000	35,000	466,000	39	450,000	43,000	493,000		19,000	8,000	27,000
Bureau Restraint of Trade	202	1,791,000	160,000	1,951,000	202	1,896,000	185,000	2,081,000		105,000	25,000	130,000
Bureau Deceptive Practices	124	1,126,000	123,500	1,249,500	133	1,262,000	145,500	1,407,500	9	136,000	22,000	158,000
Bureau Textiles and Furs	95	709,000	57,000	766,000	130	984,000	76,000	1,060,000	35	275,000	19,000	294,000
Bureau Field Operations	296	2,270,000	295,000	2,565,000	301	2,423,000	300,000	2,723,000	5	153,000	5,000	158,000
Bureau Industry Guidance	47	440,000	6,000	446,000	62	624,000	6,000	630,000	15	184,000		184,000
Bureau Economics	126	900,000	8,000	908,000	138	1,040,000	13,000	1,053,000	12	140,000	5,000	145,000
General operating expenses (not included above)			1,256,000	1,256,000			1,414,500	1,414,500			158,500	158,500
Total	1,178	9,573,000	2,013,500	11,586,500	1,268	10,756,000	2,272,000	13,028,000	90	1,813,000	258,500	1,441,500

Mr. THOMAS. Off the record.
(Discussion held off the record.)

1964 COST OF PAY RAISE

Mr. THOMAS. Is the pay increase included in this first figure?
Mr. GLENDENING. Yes, sir.
Mr. THOMAS. Is the $13,028,000 inclusive of the pay increase?
Mr. GLENDENING. Yes, sir, some $378,000 plus $154,000 we are required to absorb this year.

INCREASES IN EMPLOYMENT

Mr. THOMAS. The record shows employment for 1963 and 1964. We might go back to 1959–60–61 and 62. In 1960 you had 754 jobs. That was an increase of about 35 over 1959, as I recall it.
In 1961 the figure jumped from 754 to 838.
Then the present Commission came in and in 1962 and that figure of 838 was jumped to 1,072.
That year you got the prize of our many headaches, an almost 30 percent increase.
Mr. DIXON. And we appreciated it.
Mr. THOMAS. The next year, in 1963, you went up again, an 11 percent increase, to 1,178.
This year, in 1964, you want to increase that to 1,268, an increase of 90.
You pointed out that perhaps you could have 5,000 people and not do a much better job than you are doing now. You can take an army and go into the labeling industry.

COMPLIANCE INVESTIGATIONS FOR ATTORNEY GENERAL

You have spent about $1 million in the last 2 years on cases referred to the Attorney General up to date. What luck have you had in that?
Mr. GERCKE. Twenty-one field investigations have been completed. Of the 21, 12 of the cases have been referred by the Commission to the Attorney General containing findings and recommendations of the Commission.
The remaining cases are in various stages of review and preparation.
Of the 12 cases that have been referred to the Attorney General, the Commission has recommended affirmative action in 4 of them.
With respect to the cases still pending at staff level, in which field investigation had been completed, the indications are that a similar pattern of noncompliance is detectable. In other words, on the basis of our experience to date with some 20 cases, there seems to be about one-third of the cases in which some affirmative action will be necessary.
All of the cases, save two, have been assigned to the field offices for investigation, and all but seven have been activated. Two of the seven have been specifically reserved at the request of the Attorney General because of a potential interest they might have in otherwise pursuing these investigations.

Insofar as the projection for next year is concerned, I would anticipate from what I can see now that there should be approximately between 12 and 15 additional cases completed.

Mr. THOMAS. How much time does it take for a case? I am sure there is no general rule.

Where are you set out in the table?

Mr. GLENDENING. Bureau of Restraint of Trade. Detail of that is shown on page 45.

Mr. THOMAS. What is the total cost of your Bureau?

Mr. GERCKE. That figure of 33 is not reflective of the personnel that are working on the Attorney General's program.

That figure reflects the personnel assigned to the Division of Compliance, and of that 33, 3 are in a general supervisory and review capacity.

Mr. THOMAS. Where are your activities set out? How many people do you have?

Mr. GERCKE. I would like to point out the bulk of the personnel are in the Bureau of Field Operations and assigned to the investigation of these cases. I would estimate approximately 40 full-time men have been utilized and are being utilized on this work in the field, in addition to the 3 that are assigned to headquarters.

Mr. THOMAS. What is your total personnel regardless of where they are located? Do you have jurisdiction over all of them regardless of where they are located and regardless of the bureau to which they are attached?

Mr. GERCKE. Insofar as these cases are controlled they are controlled by the Division of Compliance, yes. As to the immediate supervisory problem they fall within the cognizance of the individual attorneys in charge of the field offices.

Mr. THOMAS. How much money was allocated to you when you first set this up?

Mr. DIXON. About $1 million.

Mr. THOMAS. How many people were employed?

Mr. GLENDENING. Seventy.

Mr. THOMAS. How many do you have today?

Mr. GLENDENING. The full 70, I am sure.

Mr. THOMAS. And you are spending what today?

Mr. GLENDENING. Approximately $958,000 this year, including the pay raise.

Mr. THOMAS. The entire 70 are engaged in reviewing past decisions of the court? What do you have them doing?

Mr. GERCKE. In that number there are accountants we are using in sizable numbers in some of these cases.

We also have found it necessary to consult the Bureau of Economics on some of these cases. I think the residual manpower, over and above these basic figures, occur in the accounting bureau and in the Bureau of Economics.

Mr. DIXON. A word of explanation is due you, Mr. Chairman.

When we first——

Mr. THOMAS. Our trouble now is that we have had too many words and nothing we can put our teeth into. Let me see if I can summarize it.

You started off with 70 people. You still have the 70. It is costing about $1 million a year. Where are the 70 located and what are the 70 doing?

DECENTRALIZATION OF STAFF TO FIELD OFFICES

Mr. GERCKE. Other than the 3 assigned to headquarters, other than perhaps between 5 and 10 accountants who are generally engaged on this, the rest of them are all in the active field investigation of these cases.

Mr. THOMAS. In the 11 field offices.

Mr. GERCKE. That is correct.

Mr. THOMAS. Under whose jurisdiction do they remain when they are in the field offices?

Mr. GERCKE. The quality control of the case rests with me.

The immediate supervision with respect to the day-to-day operations and investigation of the case rests with the individual attorney in charge of the field office.

As a practical matter, we could not figure out any other feasible way of my supervising a man operating in San Francisco other than placing immediate control over that operation in charge of the attorney in charge of the San Francisco office.

Mr. THOMAS. That makes sense, too.

Mr. DIXON. We did this to save money, Mr. Chairman. We started out with all of them here. Then the situs of these things was where we had a field office.

We stationed the man there rather than putting him on per diem.

Mr. THOMAS. That makes sense. It is the only way you can operate. I never did think a man in Washington can tell a man in the field on a day-to-day basis how to do his job. I don't care where it is, in your agency or in the VA, or any other agency.

Are these people's efforts solely and exclusively to the enforcement of past decisions of the court? Are they out doing the general work of the Bureau in the locality where they are domiciled? If their office has an investigation, if they are investigating 10 or 20 cases, do they help with those cases or do they devote their time in the prior decisions?

LEGAL DELAYS ENCOUNTERED

Mr. GERCKE. In the planning stage they are devoted to the investigation of these judgments. As a practical matter, we have run into delays because of disagreement between opposing counsel and Government counsel.

We have perhaps five men who may be sitting in San Francisco awaiting the outcome of this legal hassle.

We necessarily immediately switch them either on to another judgment matter there or on to Commission work which is in the immediate area, but that is only to the extent——

Mr. THOMAS. What do you mean by a legal hassle? The Bureau says the judgment of the court is not being complied with, and the opposing attorney says it is?

Mr. GERCKE. There is a question of relevancy generally presented in these case. One of the common problems is that a successor cor-

poration is standing in the stead of a named defendant under the judgment. The defense initially always is, "We are not covered by the judgment. Therefore, the Government has no right to investigate us." That necessarily takes some degree of resolution between counsel before we get access to the records that we are interested in. That is but one of the types of situations that we commonly run into.

Another is that our best information may be indicative of the situs of the records that we are interested in, but it turns out that there has been a shift of records over some sizable distance. In that type of situation, we must regroup our men and get them reassigned to the area where we are able effectively to utilize them with the records which are available.

Mr. THOMAS. It appears to me it will take another army to enforce past decisions of the courts.

Mr. DIXON. Mr. Chairman, it took very often 3 or 4 years of preparation before Justice even got ready to sue. In some of those cases it took several years to bring them to a conclusion. It is as hard to investigate and determine whether there is compliance as it is to build a case.

Mr. EVINS. This is the area in which I wanted to inquire, Mr. Chairman. We provided increased funds at the Commission's request to cooperate with the Attorney General to find out how many of the Commission's decisions had been violated. I think most of the——

Mr. DIXON. Justice decisions.

Mr. EVINS. The Justice antitrust decisions. You have not wound this up within 2 years. As the chairman has brought out, the staff is absorbed in other matters, which in effect is an increase in the staff which has permeated throughout the staff of the Commission. Every now and then you can assign them to compliance work, but if they had addressed themselves to the matter at hand full time, they could have wrapped it up, no doubt.

Mr. DIXON. That is not quite correct, I do not believe, Congressman, because of this fact: In the beginning, I believe we told you that these were the most difficult cases Justice had brought in 20 years. They were long, bitterly contested cases. It took years to prepare them and years to try them. You will remember that to determine whether an order was being violated, the same type of preparation is necessary, if not greater effort.

Mr. EVINS. By the Attorney General's letter of request to you to provide information, your staff has been increased by 70 additional expert attorneys. That is true, is it not?

Mr. DIXON. That is correct, sir, and I hope we never lose them, because my plan would be to integrate them in here to check what we are not checking ourselves.

LOCATION OF STAFF WORKING ON ATTORNEY GENERAL CASES

Mr. THOMAS. Where are the green sheets on these?

Mr. DIXON. It would be in the Bureau of Restraint of Trade for those three for headquarters, and in the Bureau of Field Operations for the others, sir. We have not attempted to split them out and to

separate them. Maybe that is what you are asking us to do. I did not try to split out accountants or the General Counsel's staff to cover this.

Mr. THOMAS. On page 64, you give us some information which might help here.

Mr. GLENDENING. Page 99.

Mr. DIXON. Page 99 for the other.

Mr. GLENDENING. On page 99, we deal with field office personnel.

Mr. THOMAS. We have to look all over the lot, and when we finally get it, it is not exactly what we want.

Mr. DIXON. Page 99 has by grades the employees as of December 31 in all of our field operations.

Mr. THOMAS. Which ones of these are doing your compliance work for the Attorney General?

Mr. DIXON. They would be spread generally. We would have to split them out for you. We have teams in Washington, New York, Chicago, Atlanta, New Orleans, and San Francisco.

Mr. THOMAS. You said it was all here. I agree with you. All you have to do is find it.

Mr. DIXON. We have so many grades 15, 14, and 13, and 12 attorneys. Which ones of those are exclusively in this work——

Mr. THOMAS. Which type of personnel do you have on this work? Are these 15's, 14's, 13's, 12's, 11's, 9's, or what?

Mr. DIXON. They would be spread through the grades, sir. The leaders of these teams would be the higher grades. They would have some high-grade people and some young attorneys with them. It would be spread across the board among those grades.

Mr. THOMAS. I notice here in Washington you have three grade 14's, New York three, Boston one, Chicago three, Cleveland one, Atlanta three, Kansas City none, New Orleans four, San Francisco five, Seattle one. What do these people do? Which ones of these are enforcing these judgments of the courts?

Mr. DIXON. In New York, one of those grade 14's, Dougherty, is the team captain of two compliance groups.

Mr. GERCKE. I do not know what grade Sol Grand is, but he also is cochief up there.

Mr. DIXON. He is probably a 14.

Mr. THOMAS. We can avoid all this. Get this table in shape so it provides the information.

TERRITORY OF WASHINGTON FIELD OFFICE

Mr. OSTERTAG. Is Washington a field office and a central office as well?

Mr. DIXON. That is right. We have one field office.

Mr. GLENDENING. The Washington field office is actually in Arlington.

Mr. THOMAS. What is the jurisdiction of the Washington field office?

Mr. WILLIAMS. Territorywide. It covers Virginia, Maryland, and North Carolina. Geographically, it is divided by the eastern part of North Carolina, Virginia, Maryland, and some of Pennsylvania, about half.

Mr. THOMAS. New York comes down how far?

Mr. WILLIAMS. New York comes to Philadelphia and meets it there. Delaware is in there, too, as part of it.

SUMMARY OF FORMAL AND INFORMAL CASES

Mr. THOMAS. Put the table on page 11 in the record. This is a summary of the formal and informal cases, a pretty good table.

(The table referred to follows:)

Summary of formal and informal cases, fiscal years 1958 through 1962

FORMAL CASES

Fiscal year	Complaints issued or approved		Orders to cease and desist		Orders of dismissal, etc.		Pending end of year	Petitions to review filed in courts		
	Monopoly	Deceptive	Monopoly	Deceptive	Monopoly	Deceptive		Filed	Disposed of	Pending end year
1958	86	269	45	228	8	10	326	26	22	18
1959	80	272	69	277	5	36	309	18	19	25
1960	157	348	58	298	5	13	449	24	18	31
1961	121	292	103	272	5	14	473	31	22	40
1962	234	240	92	319	19	10	524	27	21	46

INFORMAL CASES

	Fiscal years				
	1962	1961	1960	1959	1958
Investigations pending first of fiscal year, total.	2,743	2,142	1,336	1,359	1,365
Restraint of trade	1,484	931	450	488	436
Deceptive practices	1,259	1,211	886	871	929
Initiated and reopened during year, total	1,795	2,024	1,946	1,072	1,059
Restraint of trade	741	884	760	213	291
Deceptive practices	1,054	1,140	1,186	859	768
Completed during year, total	1,677	1,427	1,140	1,095	1,065
Restraint of trade	709	336	279	251	239
Deceptive practices	968	1,091	861	844	826
Pending at end of year, total	2,872	2,743	2,142	1,336	1,359
Restraint of trade	1,513	1,484	931	450	488
Deceptive practices	1,359	1,259	1,211	886	871

Office of the Executive Director

Mr. Thomas. Put page 18 and the first paragraph on page 19 in the record.

(The material referred to follows:)

Office of the Executive Director

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of Executive Director	6	$64,000	8	$81,000	2	$17,000
Office of Information	5	39,000	5	41,000	----------	2,000
Office of Administration	10	80,000	10	84,000	----------	4,000
Division of Personnel	11	77,000	11	81,000	----------	4,000
Division of Administrative Services	51	301,000	53	327,000	2	26,000
Total, personal services	83	561,000	87	614,000	4	53,000
Travel	----------	4,000	----------	4,000	----------	----------
Total	83	565,000	87	618,000	4	53,000

Office of the Executive Director

The Executive Director, as the Commission's chief operating official, manages 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 also includes the Office of Information.

Since 1960 the Office of Information has reported to the Executive Director and its overall policy advisory and educational functions have been given additional emphasis.

In 1962 the position of program review officer was established for program planning purposes. 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.

An additional $14,000 is requested to provide for a program analyst at GS–12 and a secretary at GS–5, who are needed to assist the program review officer in carrying out his vital functions and $5,000 to provide for the increased pay costs in 1964.

Mr. Thomas. This is the Office of the Executive Director. You have 83 people. You want an increase of four.

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.

Is he the housekeeper?

Mr. Dixon. He is the housekeeper. The Office of Administration, yes, sir, is a kind of housekeeper.

Mr. THOMAS. What is included in his duties?

Mr. DIXON. He does a little bit of everything. That is the best way to say it. He buys. He is our service manager. He runs the personnel program and the printshop. All the administrative services are under him. The library is there.

Mr. THOMAS. Eighty-three people to take care of how many? How many people does he take care of? He does not take care of the regional offices? How many people have you in the regional offices?

Mr. GLENDENING. Yes, he does take care of them.

Mr. THOMAS. Does he not just take care of the Washington headquarters office, or all the regional offices?

Mr. DELANEY. All regions, sir.

Mr. THOMAS. You mean you do not have a duplicate setup in the region? All personnel vouchers, pay checks, and travel orders and social security—all of the administrative services are rendered here.

Mr. GLENDENING. That is correct. All fiscal and administrative functions are performed in Washington by the Office of the Comptroller and the Office of Administration.

Mr. THOMAS. What is the total personnel in the field?

Mr. GLENDENING. 277.

Mr. THOMAS. You figure all together about 300 people, then. You do not do any administrative work in those offices.

Mr. DELANEY. We have about 100.

Mr. WILLIAMS. We have 52 attorneys and about 30 stenographers, and about 16 accountants—about 76, I believe.

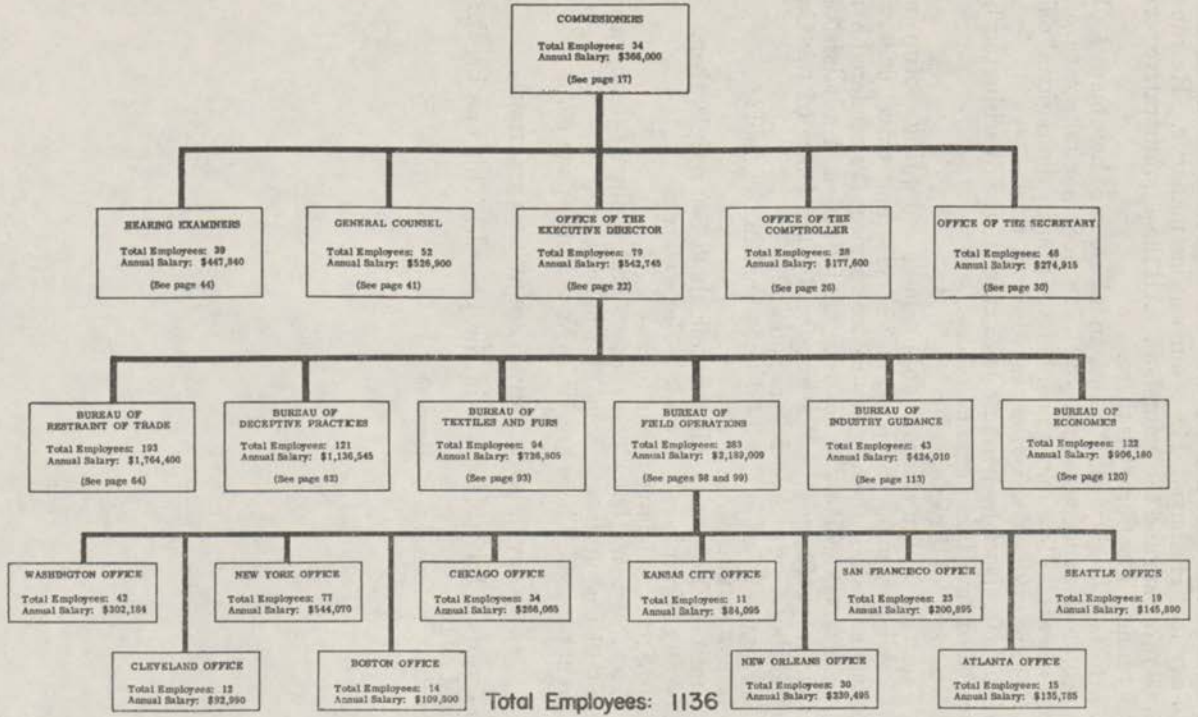
Mr. GLENDENING. There are 77 in New York, page 99.

SUMMARY OF TOTAL EMPLOYEES BY ORGANIZATION

Mr. THOMAS. Put this chart in the record. This one breaks out your field offices.

(The chart referred to follows:)

FEDERAL TRADE COMMISSION



Total Employees: 1136

Annual Salary: $9,482,949

December 31, 1962

Mr. THOMAS. What is the sum total of the field operation?
Mr. DIXON. 277.
Mr. THOMAS. 277, field.
Mr. DIXON. Page 99 has that broken down.
Mr. OSTERTAG. Is that the total number as of the first of the year?
Mr. GLENDENING. Yes, sir.

OFFICE OF THE COMPTROLLER

Mr. THOMAS. What about the Office of the Comptroller? An increase from 30 to 33. Put pages 23, 24 and 25 in the record.
(The pages referred to follow:)

Office of the Comptroller

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Comptroller	4	$39,000	4	$41,000	----------	$2,000
Division of Budget and Finance	15	96,000	16	105,000	1	9,000
Division of Machine Tabulation	11	57,000	13	67,000	2	10,000
Total personal services	30	192,000	33	213,000	3	21,000
Travel	----------	1,000	----------	1,000	----------	----------
Other expenses	----------	45,000	----------	60,000	----------	15,000
Total	30	238,000	33	274,000	3	36,000

OFFICE OF THE COMPTROLLER

The Office of the Comptroller includes the Division of Budget and Finance and the Division of Machine Tabulation, thus placing all budget, fiscal, and machine tabulation work in one office. The Division of Financial Statistics was transferred to the Bureau of Economics effective June 1, 1962.

DIVISION OF BUDGET AND FINANCE

The Division of Budget and Finance is responsible for the preparation and administration of the Commission's budget and maintains the fiscal records of the Commission. This office maintains salary, savings bonds, tax, social security, retirement, and annual and sick leave records for all employees of the Commission, including the field offices. This Division performs the audit, prior to payment, of all vouchers covering payments for travel expense, communications, and supplies and equipment. The Fiscal Section maintains the various ledgers and records necessary to reflect the financial position of the Commission at all times, and prepares the various financial statements and reports required by the Commission, the Bureau of the Budget, the Treasury Department, the General Accounting Office, and the Congress.

The workload in the Division has shown a marked increase in the last 2 years. In the Payroll Section alone the number of documents handled has increased 200 percent. From 1961 to 1962 the volume of travel advances to Commission employees has increased 54 percent, with a corresponding increase in other fiscal record maintenance. With the increase in Commission employment and expanding programs in 1963 this workload must necessarily increase.

The Commission's budget request for 1964 contemplates the addition of 90 employees. The additional services required by the new employment and compulsory reports to State governments pertaining to income taxes withheld and unemployment compensation will again increase the burden in this Division. To alleviate some of this workload the amount of $4,000 is requested for one GS–5 accounting clerk and the amount of $7,000 is requested for increased pay costs.

DIVISION OF MACHINE TABULATION

This Division is the center for all data processing for the Commission; here volumes of legal and economic evidence are compiled and tabulated for use in the Commission's law-enforcement functions.

In the past 2 years this Division has completed large numbers of tabulations in many cases pertaining to enforcement of section 7 of the Clayton Act and the other antimonopoly statutes. Outstanding in this area was the *National Tea Co.* case in which statistics compiled covered a period of 6 years. Twenty thousand punch cards were made to cover the thousands of computations needed to ascertain the share of the market controlled by this company. This Division also processes and tabulates all data for the corporate financial reports and other reports issued by the Bureau of Economics.

With the increase in everyday use of data-processing systems and the expanding volume of work in the Commission it is requested that additional funds amounting to $15,000 be granted to update the present tabulating system. An increase of $10,000 is also requested to provide for two additional employees and for increased pay costs.

The two employees required are one GS–5 tabulating machine operator and one GS–3 card punch operator.

Mr. THOMAS. Are you combining these two offices? This is housekeeping, too, Budget and Finance. Thirty-three against how many over in the Director's office? Against 83. You have 83 and 33. That is 116 people doing housekeeping work for how many? Twelve hundred.

Mr. DIXON. This is specialized work here in the Office of the Comptroller. We could group them and come out just where we are. I do not think we have any fat there at all, because as we grow, all of these increased functions come back upon this office and upon our personnel office here. We also have here the Division of Machine Tabulation. We perform all of our machine tabulation operations there. Someone must be responsible for this.

Mr. THOMAS. Do you mean IBM machines?

Mr. DIXON. Yes.

Mr. THOMAS. What is the nature of the operation?

Mr. DIXON. We make up the quarterly reports in connection with SEC, the financial reports. They give us raw material which is fed into the machines and processed. We also use them extensively in the preparation of evidence used in the trials of merger and other restraint of trade cases. We use them generally for our own work.

OFFICE OF THE SECRETARY

Mr. THOMAS. Put in the record pages 27, 28, and 29, Office of the Secretary.

(The pages referred to follow:)

Office of the Secretary

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Secretary	10	$79,000	10	$83,000	----------	$4,000
Legal and public records	38	190,000	43	221,000	5	31,000
Total Personal Services	48	269,000	53	304,000	5	35,000
Travel	----------	1,000	----------	1,000	----------	----------
Total	48	270,000	53	305,000	5	35,000

OFFICE OF THE SECRETARY

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.

During 1962 the Legal Research and Reporting Section, formerly under the Assistant Secretary for Minutes, was transferred to the Office of the General Counsel.

No increase in personnel is requested for 1964 but an additional $4,000 will be requested for increased pay costs of the present staff.

LEGAL AND PUBLIC RECORDS

The Division of Legal and Public Records embraces the Formal Docket, Informal Docket, Correspondence, Public Reference, and Distribution Sections.

The Formal and Informal Docket Sections are responsible for the establishment, management, safety, completeness and accuracy, uses and retirement of the legal and related records of the Commission.

The Correspondence Section receives incoming mail, opens, date stamps, establishes index and tickler when appropriate, conducts history search, and forwards letters to proper office for action.

The Public Reference Section furnishes information and assistance to the public, and to the staff of the Commission in relation to public, legal and court proceedings and in matters of related procedure. The Section is responsible for the custody, location, safety, conditions, etc., of dockets, files, exhibits, etc.

The Distribution Section controls the supply and distribution of all publications issued by the Commission, such as economic reports, annual reports, trade practice rules, etc.

The workload of the several sections of this Division bears a direct relationship to the professional staffs of the operating bureaus. The number of attorneys and hearing examiners on the Commission staff has increased steadily during the past 5 years while the number of employees in this Division has remained the same.

In anticipation of the increase in production of cases by the staff and the new responsibilities concerned with the processing of consent settlement matters, an additional $31,000 will be needed in fiscal 1964 to provide $19,000 for five clerks GS–4, and $12,000 for increased pay costs for the current staff.

Mr. THOMAS.—The Office of the Secretary jumps from 48 to 53. [Reading:]

The Secretary and his immediate office receive and handle mail on all phases of the Commission's work.

It is still a housekeeping activity.

He signs all orders and certain other official papers.

What are the certain other official papers?

Mr. DIXON. By direction of the Commission. He is the clerk of the court. He is custodian of all the official records of the Commission.

Mr. THOMAS (reading):

During 1962 the Legal Research and Reporting Section, formerly under the Assistant Secretary for Minutes, was transferred to the Office of the General Counsel.

Mr. EVINS. Is this the division which publishes your annual decisions?

Mr. GLENDENING. Yes.

Mr. EVINS. Is he current on them, or behind?

Mr. GLENDENING. We are current within a year, yes.

Mr. THOMAS. How much is for publishing the annual report and how much for printing and binding generally? That is in your

"other objects," and we will get to that in a minute. In round figures, this year, $100,000; round figures next year, $100,000. When you see those round figures, it looks like a little guesswork.

Office of the General Counsel

Let's turn to the Office of General Counsel. Insert pages 31, 32, and 33 in the record.

(The pages referred to follow:)

Office of the General Counsel

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of General Counsel	16	$151,000	16	$160,200	----------	$9,200
Division of Appeals	29	275,000	31	311,000	2	36,000
Division of Consent Appeals	6	58,000	6	61,000	----------	3,000
Division of Legislation	4	41,000	4	41,800	----------	800
Total, Personal services	55	525,000	57	574,000	2	49,000
Travel	----------	11,000	----------	12,000	----------	1,000
Total	55	536,000	57	586,000	2	50,000

Office of the General Counsel

As the Commission'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 on 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 subpenas and seeking injunctions;

Prepares opinions on matters of law for the Commission and the staff;

Analyzes new legislation, prepares the Commission's reports thereon and represents the Commission before congressional committees;

Handles the negotiation of consent orders;

Handles cancellation proceedings of trademarks under Lanham Act;

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 and trade practice guides;

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 1964. The increased activity of the Commission, the emphasis being given to restraint of trade matters, the initiation of industry-wide-type investigations, and the greatly expanded use of demands for special reports and investigational subpenas, enforceable 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 total increase of $50,000 for the General Counsel will provide $13.000 for two additional employees, $5,000 for required staff promotions, $31,000 for increased pay costs in 1964, and $1,000 for additional travel.

The Legal Research and Reporting Section is now located in the Office of the General Counsel. This Section is responsible for the preparation and publication of the volumes of "Federal Trade Commission Decisions" and 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 case notes to Commission cease and desist orders for publication in the Federal Register. Such volume of work has virtually doubled under the Commission's expanded program. Because of lack of additional staff, the work has fallen much in arrears.

Besides producing monthly the Inter-Office Reporter of cases in trade regulation and antitrust field, the Section has the further responsibility of preparing and maintaining the cumulative legal digest of Federal Trade Commission Decision. This work is of major importance, not only because of its need by the trial and appellate staff of the Commission, but also because it constitutes source material of the guidance of business itself. Thus far, there are 57 volumes of Commission decisions that are in the program for digesting. Progress of the work, however, is behind schedule because of the serious understaffing of the Section.

The only additional amount requested for 1964 is $9,200 to cover increased pay costs of the current staff.

Mr. THOMAS. In the Office of the General Counsel, with all your work, you are just an appellate division for all the trial work back in the field offices.

Mr. DIXON. They are creating more trouble for our General Counsel than you can shake a stick at.

Mr. THOMAS. He is not General Counsel. He is an appellate lawyer.

Mr. DIXON. The APA Act made our General Counsel an adviser to the Commission, and the Commission's lawyer after the Commission has decided the case.

Mr. THOMAS. You are not on speaking terms half the time, are you?

Mr. DIXON. Our General Counsel has three fundamental divisions there.

Mr. THOMAS. When you have a case under consideration, you are not on speaking terms with him, are you?

Mr. DIXON. This is down in our shop, but when we go to court, after we get through and it is reviewed in the court, he is the Commission.

Mr. EVINS. You render the decision and call in the General Counsel to affirm it.

Mr. DIXON. In our investigatory process, we are having a formal hearing, and it is tending to be quite common to have a refusal and appeal to the court to have us stopped. Our General Counsel has to go there and represent us. I tell you, with all his appellate work that he is getting——

Mr. THOMAS. During the time you are in process or decision stage, he is not on speaking terms with you.

Mr. DIXON. We are on speaking terms up until we start. Then after we issue the complaint, I do not speak to anybody else about it until it comes to me on review.

Mr. THOMAS. I was not wrong when I said half the time you are not on speaking terms.

Mr. DIXON. That is right.

MEETINGS OF THE COMMISSION

Mr. THOMAS. How often does the Commission meet? You meet six days a week, every Saturday morning, too?

Mr. DIXON. We meet three times a week, usually, and we hear an oral argument about three times a week, average. We have one always, sometimes two.

APPELLATE WORK

Mr. THOMAS. The judge wants to increase his office from 55 to 57. His office [reading]—

Handles the preparation of briefs and oral arguments before the courts of appeals on appeals taken from decisions of the Commission.

How many cases have you on appeal, Judge?

Mr. HENDERSON. It varies from day to day. I think we have 54.

Mr. THOMAS. That keeps you on the road. What courts are they in?

Mr. HENDERSON. We have been in every circuit but one, Mr. Chairman, this year.

Mr. DIXON. And a lot of district courts, too.

Mr. THOMAS. Do you do any trial work in the district courts?

Mr. HENDERSON. Yes.

Mr. THOMAS. I thought the Bureau in the field handled that. Do you do that, too?

Mr. HENDERSON. Yes.

Mr. THOMAS. What about this streamlining that we had?

Mr. DIXON. We participate with the U.S. Attorney, Department of Justice, when the district court is resorted to either by us for enforcement or a respondent takes us there.

Mr. THOMAS. I used a loose term there. When you go to the district court, most of the time you are brought there; are you not?

Mr. DIXON. We are brought there; that is correct, sir.

Mr. THOMAS. Who represents you then—the chief counsel or the legal staff nearest the court of jurisdiction?

Mr. DIXON. Our General Counsel does, because he has more expertise in this field. He is our solicitor.

Mr. THOMAS. Outside of the Commission itself.

Mr. DIXON. That is right. He is our solicitor.

Mr. OSTERTAG. Speaking of mergers, a railroad merger would not come under your jurisdiction. That would be under ICC; would it not?

Mr. DIXON. Section 11 of the Clayton Act, the empowering section to us, delineates those areas that are assigned to the various bureaus: Communications, FCC; banks, Federal Reserve; transportation, ICC; airlines, CAB. Everything else is ours.

Mr. OSTERTAG. All others come under the Trade Commission?

Mr. DIXON. Everything else.

CONSENT ORDERS

Mr. THOMAS. What about the negotiation of consent orders?

Mr. DIXON. This is the new Division that we created. As we reported, our purpose here——

Mr. THOMAS. We have not started yet, have we?

Mr. DIXON. Yes, we have.

Mr. THOMAS. How long have we been in business?

Mr. DIXON. Since June 1961. We are very pleased with this, Mr. Chairman, because we are getting better uniformity of orders. You see, this group is really our agent for the negotiation. We have devised a plan whereby the Commission can stay in the matter. We did not want the APA Act to take our hat off. We have placed this group in the General Counsel because he is our adviser to keep us uniform and coherent and up to date in the law. He is properly placed now. We have an Assistant General Counsel in charge of this and answerable to him.

COMMISSION SUBPENAS

Mr. THOMAS (reading):

Examines from the standpoint of enforcibility investigational demands for access, demands for special reports, and subpenas duces tecum.

I imagine if you go into court and get a subpena duces tecum, there is not much argument.

Mr. DIXON. To fill that out and make it meaningful, in our regular administrative processes we may go to an investigational hearing. We find it necessary to issue, for instance, a subpena duces tecum——

Mr. THOMAS. You want access to certain records.

Mr. DIXON. Right. We want them produced. We must anticipate when we make this demand that we will get a refusal and we will have to seek an order of enforcement. We call our General Counsel in at the beginning because——

Mr. THOMAS. I thought that was handled in the field. What is that investigative unit and the lawyers in the field doing?

Mr. DIXON. This is not in the field. This originates down in one of these three enforcement bureaus. Right where our General Counsel is, we want that day-to-day contact and check, because we do not want them drawing a subpena duces tecum that is unreasonable. We want one drawn that can be enforced. We want our General Counsel in when we lay the plank, so if they stop he has the job of going to the court to enforce it.

Mr. THOMAS. The request must be specific and it must be relevant.

Mr. DIXON. These are not court subpenas. These are our own subpenas. We have the authority to issue these subpenas ourselves.

Mr. THOMAS. These are subpenas requested of the Commission and not of the court?

Mr. DIXON. That is correct. Our trial staff in the Bureau of Restraint of Trade will request one down there. We want that checked out with our General Counsel before a Commissioner signs it. Commissioner Higgenbotham is our subpena Commissioner now. These are brought to him. Any one Commissioner can issue them.

Mr. THOMAS. Any one Commissioner can sign the order?

Mr. DIXON. That is right, can sign the subpena. This is a lawful demand upon the party to produce as outlined in the subpena. He can comply, and it is all over with, but very often they will resist. Then we have to go for enforcement or we will have to——

Mr. THOMAS. If they resist, do they resist before the Commission or do they take you into the nearest district court?

Mr. DIXON. They will resist. It can come by just failure to show up and comply. Then we have the burden to go forward. Else they can go themselves to the district court to have it set aside.

Mr. THOMAS. You have to be careful there to show relevancy and accuracy in what you want. You do not want the charge leveled against you that you have a scatter barrel on them.

Mr. DIXON. That is right. We have to draw them within the bounds of relevancy.

Mr. THOMAS (reading):

Prepares legal manuals and studies for staff use.

What does that mean?

Mr. DIXON. We have a great deal of young men coming in, and old men as far as that is concerned. We have an attorneys manual. We try to keep that up to date. It takes quite of bit of work to bring that up to date. It is being prepared now under our new organization and direction, and this is a function of the General Counsel.

DIVISION OF APPEALS

Mr. THOMAS. Put material on the Division of Appeals in the record. (The material referred to follows:)

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 appropriate divisions of the Department of Justice 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 reports to the Congress and the Bureau of the Budget.

WORKLOAD, FISCAL 1962

During fiscal 1962 the Division handled 86 court cases. It completed litigation in 30, 7 of which were antimonopoly proceedings, 15 involved unfair or deceptive practices, 2 concerned the Commission's subpena powers, 4 were injunction suits to restrain Commission actions, 1 was a trademark cancellation proceeding, and 1 concerned enforcement of and collection of penalties for violating an order to file special reports pertaining to a merger being investigated by the Commission.

The Division represented the Commission in 10 of 11 U.S. courts of appeals, and in 6 U.S. district courts. It prepared and filed 45 briefs and memorandums and assisted in the preparation of 16 other briefs filed on the Commission's behalf by the Department of Justice, made 40 arguments and assisted in the presentation of 9 others by the Department, initiated 3 proceedings to obtain court orders enforcing subpenas and 1 prosecution for criminal contempt, and prepared and filed approximately 200 other court papers.

CURRENT WORKLOAD

Since most of the Division's workload results from actions initiated by other parties, the timing of its work is controlled by factors over which it has little control. As in each of the recent prior fiscal years, the load in fiscal 1962 was heavier than in the previous year, and reached a new high. There was a maximum of only 12 attorneys on the staff to handle the work, and as a result much night and weekend overtime was needed.

At the beginning of fiscal 1963 the workload included 58 pending court cases, an increase of 11 over the previous year. These included 7 in the Supreme Court, 46 in courts of appeals, and 5 in district courts. There were 4 merger, 21 other antimonopoly, and 18 deceptive-practice appellate review cases, 6 subpena-enforcement, 8 injunction and miscellaneous suits, and 1 criminal contempt proceeding. They included *Pillsbury Mills*, with 31,000 pages of transcript and 1,000 exhibits; *Union Carbide*, with 11,800 pages of transcript and over 2,100 exhibits; *Firestone Tire & Rubber Co.*, with 8,000 pages of transcript and 700 exhibits;

Goodyear Tire & Rubber Co., with 5,500 pages of transcript and 500 exhibits; *Timken Roller Bearing Co.*, with 3,300 pages of transcript and 350 exhibits; *Foremost Dairies*, with 5,500 pages of transcript and 1,500 exhibits; and *Central Retailer-Owned Groceries*, with 3,000 pages of transcript, 350 exhibits, and 30 parties challenging the Commission's actions.

On January 1, 1963, 54 cases were pending. This drop from the July 1 total is only temporary, occurring almost every year at the same time (because of the courts' disposition of cases in their fall terms, and the seasonal decline in the filing of new cases), and its small size indicates that the general upward trend of the total is continuing.

1. The long-established steady increase in the number of cases processed by the Commission, together with recent 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 Commssion's increased use of compulsory processes to obtain information, and its emphasis upon their enforcement. In the last 6 months the volume of such work has been more than enough to occupy the full time of five Division attorneys, as well as approximately one-quarter of the time of the Chief of the Division.

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 proceedings. In the past 6 months the Division has had to devote the equivalent of the full time of two attorneys to defend against such attacks.

4. The large number of "big cases" expected to be undergoing court review during fiscal 1964. 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.

While it is not possible to be sure which or what proportion of such cases now before the Commission will be decided against the respondents and appealed to the courts, Division experience indicates that it will be at least 75 percent. Following is a list of "big cases" now before the Commission which the Divison expects to have its appellate docket during fiscal 1964, in addition to its routine work and the carryover of some of the "big cases" listed above. It gives, for each case, the approximate date when the Division anticipates final decision by the Commission will be rendered, the size of the record, and an estimate of the amount of work (stated in man-years) which will be required by attorneys in the Division. Similarly derived estimates made in the past have proved to be conservative.

Mr. THOMAS (reading):

The total increase of $50,000 for the General Counsel will provide $13,000 for two additional employees.

What are they, 12's or 13's?

$5,000 for required staff promotions, $31,000 for increased pay costs in 1964, and $1,000 for additional travel.

PROFESSIONAL STAFF PROMOTIONS

Does not the new Pay Act do a pretty good job on annual promotions?

Mr. DIXON. The only thing it covers is in-grade promotions.

Mr. THOMAS. What is this for?

Mr. DIXON. This is for grade change promotions.

Mr. THOMAS. How much trouble do you have with the Civil Service Commission on that?

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Mr. DIXON. I have none. If a man warrants it and he is doing the work above carrying his responsibility, I have no hesitancy in raising him.

Mr. THOMAS. And the Commission lets you be the judge?

Mr. DIXON. That is correct, sir. This is my obligation. The law makes me the judge, not the Commission. This is the Reorganization Act that Congressman Evins has spoken about, Reorganization Plan No. 8 augmented by Reorganization Plan No. 4.

Mr. THOMAS. That does not apply to other agencies of Government; does it?

Mr. DIXON. No; it applies only to the Federal Trade Commission.

CIVIL SERVICE AUDIT OF PROMOTIONS

Mr. THOMAS. The Civil Service Commission has a Compliance Division. They see if the work he is doing represents actually an increase in duties, and so forth?

Mr. DIXON. They audit us.

Mr. THOMAS. Do they audit you?

Mr. DIXON. They certainly do.

Mr. THOMAS. If it is a matter of right with the Commission, why do they audit?

Mr. DIXON. If I promote a man to grade 13, to see that he is doing grade 13 work and not grade 12 work or grade 7 work. When you go to dealing with a group of attorneys, as you well know, a case is a case, but one case may have more responsibility in it than a dozen other cases. We are having to demand of these young attorneys that they carry a tremendous responsibility. As they come in as young men, I cannot hire them but at a low grade. As fast as they can take this responsibility, I will recognize it. This is the only tool I have, gentlemen, to keep these young men there.

APPELLATE BRIEFS AND REPORTS

Mr. THOMAS (reading):

On January 1, 1963, 54 cases were pending.

At the beginning of fiscal 1963 the workload included 58 pending court cases, an increase of 11 over the previous year. These included 7 in the Supreme Court, 46 in courts of appeals, and 5 in district courts. There were 4 merger, 21 other antimonopoly, and 18 deceptive-practice appellate review cases, 6 subpena-enforcement, 8 injunction and miscellaneous suits, and 1 criminal contempt proceeding. They included *Pillsbury Mills*, with 31,000 pages of transcript and 1,000 exhibits.

Mr. GLENDENING. That is part of the $100,000.

Mr. THOMAS. Do you think the judges read that?

Mr. DIXON. That may cost us about $50,000 to print our part of the record. That is one of those figures that we have to come through with.

Mr. HENDERSON. Our brief alone will cost about $6,500 to print.

Mr. THOMAS. Who is going to read it?

Mr. GLENDENING. Eventually, the Supreme Court.

Mr. DIXON. It is being prepared first for the appellate court, then the Supreme Court. They will read it, sir, if they decide the case. This is the reason it takes them so long to decide one. But these are not simple matters, I assure you.

Mr. THOMAS. You do not think any court is going to read a 31,000-page brief?

Mr. GLENDENING. That is the transcript, Mr. Chairman.

Mr. THOMAS. This is the transcript?

Mr. DIXON. This is the transcript. If anything in these briefs is being relied upon, the record that supports it must be printed and delivered.

Mr. THOMAS. "*Timken Roller Bearing Co.*, with 3,300 pages of transcript." What did you say it cost to get this transcript in shape?

Mr. GLENDENING. We are estimating the cost of printing on *Pillsbury* to be approximately $50,000. The brief alone is over 400 pages, and it will cost $6,500 to print. We got the estimate on that a couple of days ago from the Government Printing Office.

Mr. THOMAS. What did it cost for shorthand reporters to transcribe it?

Mr. GLENDENING. Plenty.

Mr. DIXON. If you want a good rule of thumb, it took the Federal Trade Commission 12 years' time finally to resolve the *Cement* case. I have heard the figure bandied about, $5 million to defend it.

Mr. THOMAS. What does it cost you a page for transcript now?

Mr. DIXON. What is that contract now, the last one?

Mr. GLENDENING. We get regular open hearings free, but for private or investigational hearings it costs us a minimum of 95 cents a page.

Mr. DIXON. What does it cost the respondent to buy it?

Mr. GLENDENING. The same thing.

Mr. DIXON. They do not get anything free. They have to buy it.

Mr. THOMAS. Is that double- or triple-spaced?

Mr. GLENDENING. As to the stated number of lines there are 25 lines to the page.

Mr. THOMAS. Double spaced, then.

Mr. GLENDENING. I think that is standard.

Mr. THOMAS. 95 cents a page.

Mr. JONAS. Why does the Government have to pay for the transcript? Is it because it loses the case below?

Mr. DIXON. If we lose the case?

Mr. GLENDENING. We have to have a record.

Mr. JONAS. The appellant has to prepare the record. If the Government appeals, it must have lost the case below.

Mr. DIXON. The law requires us to certify the record.

Mr. GLENDENING. We have to pay for the transcript the same as the respondent does. They buy the transcript, and so do we.

Mr. DIXON. He is talking about in court, why we have to pay for it.

Mr. GLENDENING. That is our portion of it.

Mr. JONAS. $100,000?

Mr. GLENDENING. Probably more.

Mr. THOMAS. What does the law say? Can you give Mr. Jonas a specific answer? Does the appellant have to pay the cost of the transcript, or is it equally divided by statute?

Mr. HENDERSON. It is divided, Mr. Chairman, sometimes by negotiation. Any part that we send up we have to pay for, unless there is some negotiation. In some of these cases they will pay for 70 percent and the Government pays 30 percent.

Mr. THOMAS. Regardless of who loses?

Mr. HENDERSON. Yes, sir.

Mr. DIXON. We have to maintain our position in the court, Mr. Congressman.

Mr. JONAS. I know, but tell me who lost the *Pillsbury* case—you or the Pillsbury people?

Mr. DIXON. They did.

Mr. JONAS. Who appealed?

Mr. DIXON. They are the appellants.

Mr. JONAS. It appears to me they would have to pay for making up the transcript.

Mr. DIXON. Their portion. They would not pay for that portion of the record they are not relying upon. We must pay for that part we are relying upon and negotiate the part that we both rely upon. That is one way to put it.

EMPLOYMENT IN OFFICE OF GENERAL COUNSEL

Mr. THOMAS. Mr. Reporter, put page 41 in the record.

(The page referred to follows:)

Office of the General Counsel, personnel as of Dec. 31, 1962

	Total	Attorneys	Other professionals	Stenographer and clerical
Professional:				
GS-17	1	1		
GS-16	3	3		
GS-15	16	16		
GS-14	1	1		
GS-13	3	3		
GS-12	2	1	1	
GS-11	1	1		
GS-9	3	2	1	
Stenographic, clerical, etc	22			22
Total	52	28	2	22

NOTE.—Total annual salaries, $526,900.

Mr. THOMAS. Breakdown of the personnel in the Office of General Counsel—1 GS–17, 3 GS–16, 16 GS–15, 1 GS–14. Are these all lawyers?

Mr. DIXON. Yes, sir.

Mr. THOMAS. Where is the clerical help?

Mr. DIXON. The bottom line.

Mr. THOMAS. Total attorneys, 28. If there are 28 attorneys, where are the rest of them? Adding 22 stenographic and clerical and 2 other professional, that is exactly right.

Judge Henderson, all I can say, after listening to all this interesting talk, if you can keep up with all of this with 28 lawyers, you are doing a good job. So you work on the Commission and the Chairman.

Mr. DIXON. And I will work on you.

Mr. HENDERSON. I might say, Mr. Chairman, the chief attorney on the Pillsbury case has put in nearly a thousand hours of overtime this year on that case alone.

Mr. THOMAS. He is a devoted and dedicated public servant. We need more like him.

Hearing Examiners

Let us take a look at the hearing examiners. You have how many?

Mr. Glendening. 22 hearing examiners. This appears on page 44.

Mr. Thomas. Put pages 42 and 43 in the record.

(The pages referred to follow:)

Hearing examiners

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Personal services	39	$431,000	39	$450,000	------	$19,000
Travel	------	35,000	------	43,000	------	8,000
Total	39	466,000	39	493,000	------	27,000

The hearing examiners staff presently consists of 22 hearing examiners. The acceleration of trials provided for by the Commission's rules of practice will result in the assignment of a smaller number of cases to each hearing examiner so that he can hold consecutive hearings and continue to final disposition of the cases.

The requested additions to the investigational and trial staff will produce more litigated cases for immediate disposition. This can be done as there are a sufficient number of hearing examiners available to proceed to completion with these cases as they are instituted.

No increase in staff is requested in fiscal year 1964. However, an additional $27,000 is requested to provide $19,000 for increased pay costs and $8,000 for travel funds, $7,000 of which is a restoration of the 1963 reduction in travel funds required by absorption of 1963 pay raise costs.

Mr. Thomas (reading):

The hearing examiners staff presently consists of 22 hearing examiners. The acceleration of trials provided for by the Commission's rules of practice will result in the assignment of a smaller number of cases to each hearing examiner so that he can hold consecutive hearings and continue to final disposition of the cases.

How does the reorganization plan help out your 22 trial examiners?

No increase in staff is requested in fiscal year 1964. However, an additional $27,000 is requested to provide $19,000 for increased pay costs and $8,000 for travel funds, $7,000 of which is a restoration of the 1963 reduction in travel funds required by absorption of 1963 pay raise costs.

Mr. Dixon. They are grade 15's. Mr. Chairman, some supergrades have been made available through Civil Service. I have been to several meetings on it, and there is a great deal of exploration going as to whether they can at least begin to pay these people one of the higher supergrades.

Workload of Hearing Examiners

Mr. Thomas. How many cases did your 22 hearing examiners handle last year? I do not find it in the justifications. It could be in here someplace. I will not say what is in here and what is not.

Mr. Dixon. I will send it up to you.

Mr. Thomas. Tell us now. Who has that information?

Mr. Dixon. Our Chief of Examiners is not here, and there is no one here for him.

Mr. GLENDENING. There were 51 cases, 51 orders to cease and desist, issued last year by reason of litigation. They would have handled every one of those plus a number that had not cleared the Commission at that point.

Mr. DIXON. Their total docket——

Mr. THOMAS. Let us not take the total docket. Let us have what they actually turned out.

Mr. DIXON. That chart reflects the present fiscal year on page 13.

Mr. THOMAS. Orders to cease and desist.

Mr. DIXON. We had 407 total orders to cease and desist, of which 51 were contested. They were handled by our hearing examiners.

Mr. THOMAS. What else did they handle besides these 51?

Mr. DIXON. They handled nothing else.

Mr. GOTSCHALL. They handled a lot of consent orders in that year.

Mr. JONAS. You had 22 hearing examiners who handled 51 contested cases. How many did you have who handled 58 contested cases in 1960?

Mr. DIXON. In 1960, sir, we had about 15.

Mr. JONAS. How do you account for the fact that 15 could handle more than 22?

Mr. DIXON. I can account for it by two things. They are still working some of the other type cases under the old rules, but they are getting to our new procedure. I can say that what we are doing is leaving to the hearing examiners the much more difficult case. He is spending more and more of his time on the big case. This is what we have aimed for, to get him out of the area where he had to be troubled with anything that we could settle another way.

Mr. JONAS. That is other language, but it is not borne out by the chart. The chart shows 15 examiners handled more contested cases in 1960 than the increased number handled in 1962.

Mr. THOMAS. Look over in another bureau, you will find the same thing. What is the average length of time that one of these contested cases required?

Mr. JONAS. Give us a breakdown of that, Mr. Chairman.

Mr. THOMAS. Maybe the Chief Counsel can shed some light on that.

Mr. HENDERSON. I am sorry, I cannot. I would like to ask the Commission's permission to leave. I have to be in court tomorrow morning in Jackson, Miss., and in New Orleans the following morning.

(Off the record.)

Mr. DIXON. You are asking something that we have not clarified in here. I have here a paper which came from the hearing examiners. I shall try to determine what happened in this year, but let me give you the current figures. The cases on hand as of July 1, 1962, before the hearing examiner were 159. The cases received from July 1962 to December 31, 1962, were 32. The cases reopened or remanded between July and December 31, 1962; 8. The total cases handled for that 6-month period were 199.

As to the disposition: Initial decision issued between July 1962 and December 31, 1962, were 61.

I am looking 6 months back.

Mr. JONAS. You had better dig up some information which will show how much time these examiners put on each one of these cases or we are likely to cut you off to about 7 or 8 hearing examiners, because it looks as if when you had 15 you were turning out more work.

(The following workload statistics for fiscal year 1962 were subsequently furnished:)

Hearing examiners staff, workload, July 1, 1961 to June 30, 1962

Cases received	Deceptive practices	Restraint of trade	Textiles and furs	Total
Cases on hand July 1, 1961	130	203	47	380
Cases received from July 1961 to June 30, 1962	31	29	16	76
Cases reopened or remanded July 1961 to June 30, 1962	4	12	1	17
Cases returned from Consent Agreement Division for trial from July 1961 to June 30, 1962	7	6	2	15
Total cases handled from July 1961 to June 30, 1962	172	250	66	488
Dispositions:				
Initial decisions issued July 1961 to June 30, 1962	95	104	51	250
Cases submitted to Consent Agreement Division from July 1961 to June 30, 1962	26	32	6	64
Cases placed on Commission's calendar	4	2	0	6
Commission's remand order vacated and cases returned to Commission for reargument, January 1962	0	9	0	9
Total disposition from July 1961 to June 30, 1962	125	147	57	329
Total cases on hand June 30, 1962	47	103	9	159

LAG IN EXAMINATION WORKFLOW

Mr. THOMAS. The reorganization accounted for the lag.

Mr. DIXON. I think the main thing for me to say to you is that I take the responsibility for any lag in here, sir, because it was the reorganization that slowed down the flow coming toward the hearing examiners. It is there now. In the past 6 months they have turned out 61, and on February 15 these 278 complaints that we have issued, if everyone says no to us, there are 248 additional cases going to the hearing examiners.

CLASSIFICATION AND SALARIES OF HEARING EXAMINERS

Mr. THOMAS. Put page 44 in the record. The examiners are all 15's and there are 17 stenographic and clerical.

(The page referred to follows:)

Hearing examiners, personnel as of December 31, 1962

	Total	Attorneys	Clerical
Professional: GS-15	22	22	
Stenographic, clerical, etc	17		17
Totals	39	22	17

Note.—Total Annual salaries, $447,840.

Bureau of Restraint of Trade

Mr. Thomas. Let us take a look at Restraint of Trade. We always thought that was your top bureau. Put pages 45 through 49 in the record.

(The pages referred to follow:)

Bureau of Restraint of Trade

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	46	$236,000	46	$244,000	----------	$8,000
Division of Mergers	32	320,000	32	340,000	----------	20,000
Division of General Trade Restraints	31	310,000	31	330,000	----------	20,000
Division of Discriminatory Practices	43	470,000	43	497,000	----------	27,000
Division of Compliance	33	300,000	33	320,000	----------	20,000
Division of Accounting	17	155,000	17	165,000	----------	10,000
Total, Personal services	202	1,791,000	202	1,896,000	----------	105,000
Travel	----------	147,000	----------	172,000	----------	25,000
Other expenses	----------	13,000	----------	13,000	----------	----------
Total	202	1,951,000	202	2,081,000	----------	130,000

Bureau of Restraint of Trade

Created by the Federal Trade Commission in accordance with its reorganization plan of July 1, 1961, the Bureau of Restraint of Trade was a consolidation of the previous antimonopoly trial work of the Bureau of Litigation and of the previously existing antimonopoly activities of the Bureau of Investigation.

In addition to its activities in litigation, this Bureau has the responsibility of 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 now received and processed by the Bureau of Restraint of Trade. The decisions are made by this Bureau as to the matters which warrant investigation. Several techniques are used by this Bureau in conducting these investigations: (1) In some instances memoranda 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) The staff conducts investigations by informal questionnaires and correspondence; (4) The staff conducts 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.

Another function of the Bureau is to secure compliance with orders to cease and desist issued by the Commission. This includes passing upon reports of compliance filed initially and later, followup work to assure the continuance of compliance or to initiate penalty proceedings in appropriate instances.

On March 23, 1961, the Attorney General of the United States forwarded to the Commission a list of 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 compliance with these decrees. These judgments, in most instances, involved multiple corporate defendants of major size. Field investigation has been initiated in most of these cases. Many of these investigations have been completed and recommendations have been forwarded to the Department of Justice in several of these matters.

ANTIMONOPOLY WORKLOAD, FISCAL YEARS 1962–63

The continuing growth of the Commission's antimonopoly work is shown by the increase in the number of applications received by this Bureau. During the fiscal year ended June 30, 1962, 1,451 complaints were received, compared to 1,159 in fiscal year 1961 and 1,042 in fiscal year 1960.

During the fiscal year 1962, pending restraint of trade investigations have increased from 1,484 as of June 30, 1961, to 1,516 as of June 30, 1962. There was an increase of pending restraint of trade investigations even though a substantial increase in the number of completed restraint of trade investigations was effected. As of June 30, 1962, 709 restraint of trade investigations were completed, as compared to 336 on June 30, 1961.

The formal caseload of the Bureau has increased substantially during the past 3 fiscal years as follows:

	6 Months fiscal year 1963	Fiscal year 1962	Fiscal year 1961	Fiscal year 1960
Complaints issued	52	49	121	157
Complaints authorized pending consent settlement	120	185		
Cease and desist orders issued	78	92	103	58
Pending cases or in process of litigation at end of year exclusive of consent settlement cases shown above	150	182	240	224

At the end of fiscal year 1959, there were 128 antimonopoly complaints pending; this number had increased to 240 pending by the end of fiscal year 1961. From the huge backlog at the beginning of fiscal year 1962 the number of cases actually in process of litigation on June 30, 1962, were 49; however, on that date the Commission had authorized and issued 185 additional antimonopoly complaints which were pending consent action and in previous years would have been considered current workload. Completed antimonopoly cases are seldom settled by consent order and most of these cases are now being forwarded to this Bureau for litigation. Therefore if the workload is to be compared with prior year figures it must be considered to be 234 pending cases. The backlog of pending antimonopoly complaints has not been reduced to the level of pending cases 4 years ago, despite an increase of almost 50 percent in the number of cease and desist orders issued in fiscal year 1961 over the number issued in fiscal year 1960 and continuing at about the same rate in fiscal year 1962. With 253 antimonopoly cases terminated by cease and desist orders in the period 1960–62, the Bureau still finds itself in an exteremly critical condition. On the basis of the 1963 6-month figures, it is expected the Bureau will be faced with a continuing increased workload.

The present staff of 110 attorneys has the equivalent of 2 litigated cases per man, and the equivalent of 16 formal investigations per man and this workload is increasing every day. In addition, there is the never-ending flow of complaints and informal investigational matters. On the basis of the above caseload per man, this is double the caseload which would adequately provide for reasonably expeditious handling.

During the past several years, the never-ending and ever-increasing applications for complaint and the lack of manpower to handle the flow of potential cases have resulted in high selectivity of investigation. Not only does this process result in more complex cases, but also those involving corporations of great financial strength, with capability to resist investigation and litigation, without regard to cost and manpower. In addition, the Commission's new rules provide for complete investigations prior to issuance of complaints, and for the hearings to proceed continuously until concluded. At the same time, these men must be available for completion of hearings, and preparation of findings in those cases being handled under the previous rules.

The increase of $105,000 for personal services in 1964 will provide no additional employees in the Bureau but will provide only $35,000 for necessary promotions of the professional staff and $70,000 for increased pay costs.

It is clear that this Bureau is still faced with a 2-year backlog of litigated cases despite a substantial drop in the cases pending or in process of litigation

as stated above in fiscal year 1962. When the number of pending antimonopoly investigations is considered, the Bureau is faced with at least a 4-year backlog.

On June 30, 1962, 72.5 percent of the pending cases in litigation were less than 2 years old, compared to 73 percent as of June 30, 1961; on June 30, 1962, 26.7 percent of the pending cases were 2 to 6 years old, as compared to 23 percent on June 30, 1961.

The $25,000 increase for travel only restores the travel funds originally allocated in 1963 but reduced by the required absorption of the 1963 pay raise cost.

TABLE A.—*Antimonopoly investigations: statistics, fiscal years 1960, 1961, 1962*

	1962	1961	1960
Pending, beginning of year	1,484	931	449
Initiated and reopened during the year	741	884	753
Completed during year, total [1]	712	331	271
Complaints issued	49	121	157
Complaints authorized pending consent settlement	185		
Closed	478	233	143
Pending, close of year	1,516	1,484	931

TABLE B.—*Antimonopoly complaints and orders—Statistics by statute, fiscal years 1960, 1961, 1962*

	1962	1961	1960
Complaints:			
Total [1]	49	121	157
FTC Act, sec. 5	8	18	25
Clayton Act, sec. 2	41	100	130
Clayton Act, sec. 3		2	1
Clayton Act, sec. 7	1	5	11
Clayton Act, sec. 8		1	
Authorized pending consent settlement Clayton Act, sec. 2	185		
Orders:			
Total [1]	92	103	58
FTC Act, sec. 5	10	10	8
Clayton Act, sec. 2	74	91	46
Clayton Act, sec. 3	1	3	2
Clayton Act, sec. 7	8	2	5

[1] Two or more Acts may be included in one investigation, complaint or order.

WORKLOAD—RESTRAINT OF TRADE

Mr. THOMAS. Mr. Jonas, will you be good enough to turn to page 47, and you and the chairman get into agreement on this. Complaints issued, 6 months fiscal year 1963, 52. I cannot tell whether that is 6 months of fiscal year 1962 or not, but the figure is 49.

Mr. GLENDENING. Full year.

Mr. THOMAS. Fiscal 1961 was 121. That was before the reorganization, was it not? And fiscal year 1960 was 157.

Mr. DIXON. I can answer that one.

Mr. THOMAS. Answer it, then, before we take up the other.

Mr. DIXON. In 1960 and 1961 those complaints were issued that were the result of the net that was dropped on the citrus industry, the 2(c) cases. They were turned out in great quantities. If we wanted to play quantities again, I could have you 500, but I would rather——

Mr. THOMAS. You mean you did something besides that in 1961 and 1960, did you not?

Mr. DIXON. The great mass of them were in there, the great numbers.

Mr. THOMAS. Complaints authorized pending consent settlement, in 1963, 120; 1962, 185; blank for 1961 and 1960. Do we infer from that it was around 200, or what?

Mr. DIXON. The other part of the explanation that you were asking is that all of the cases went there, including consents. After 1961, all of the consents do not go there. So, if you took 185 plus 49, you would have had 234 cases as against 121 in 1962. If you were to take 1962 to explain why we were short over here in 1962 as against 1961, you would have had to add the consent cases to it as a new procedure. All of our consent cases do not go to complaint. Now we serve a complaint.

Mr. THOMAS. You break them down, contested and noncontested.

Mr. DIXON. That is true. The true figures would make us add the two figures together to give you the figure.

Mr. THOMAS. Forty-nine and eighty-five.

Mr. DIXON. And 52 and 120. To compare those years across, that is what you would have to do. The same result, sir.

Mr. THOMAS. Cases pending or in process of litigation at end of year, exclusive of consent settlement cases shown above, 150 in 1963, 182 in 1962, 240 in 1961, 224 in 1960. You were nursing the cases back in 1960 and 1961?

Mr. DIXON. No, sir. We were working on that backlog when I came there, cases 6 and 8 years old. This is the lag you were talking about. They are whittling into that lag. You can see they are.

Mr. JONAS. I do not follow that. You mean they are whittling into it in reverse.

Mr. MILES. Whittled down from 240 in 1961 to 150 in the first 6 months of 1963.

Mr. THOMAS. Let us see if the narrative sheds any light on it.

Mr. THOMAS (reading):

> At the end of fiscal year 1959, there were 128 antimonopoly complaints pending; this number had increased to 240 pending by the end of fiscal year 1961. From the huge backlog at the beginning of fiscal year 1962 the number of cases actually in process of litigation on June 30, 1962, were 49 * * *.

We are not cutting down that backlog very fast, are we?

> * * * however, on that date the Commission had authorized and issued 185 additional antimonopoly complaints which were pending consent action and in previous years would have been considered current workload. Completed antimonopoly cases are seldom settled by consent order * * *. With 253 antimonopoly cases terminated by cease-and-desist orders in the period 1960–62, the Bureau still finds itself is an extremely critical condition. On the basis of the 1963 6-month figures, it is expected the Bureau will be faced with a continuing increased workload.

How many are you going to carry over this year? How many will you complete?

Mr. DIXON. That is a tough question to answer.

Mr. THOMAS. You cannot come up with an accurate figure on that.

Mr. JONAS. You did not read one sentence. You stopped one sentence too early. Let me read the next one.

Mr. THOMAS. Go ahead.

Mr. JONAS (reading):

> Therefore, if the workload is to be compared with prior year figures it must be considered to be 234 pending cases—

instead of 150.

So, your comment does not seem to be in order that you cut down the backlog of pending cases.

Mr. MILES. We are hoping, though, Congressman, that that 185 will be settled and will not go down to litigation.

Mr. THOMAS (reading):

> The backlog of pending antimonopoly complaints has not been reduced to the level of pending cases 4 years ago * * *.

What about that reorganization? In other words, as far as work turned out, you are in worse shape now than you were 4 years ago.

EFFECT OF CONSENT ORDER PROCEDURE

Mr. DIXON. We have issued more cases, sir. The thing that we have you confused on is our change in procedure. Formerly when we came to the complaint stage, it was very simple to have a comparative figure. We just served a complaint and went to the hearing examiner and he took care of the consent or trial. Then we whittled that consent trial out of him and we put it over in a separate group. We hoped to get those settled by consent. If they are not settled by consent, then the formal complaint is issued and it goes to trial.

At the same time, Congressman Jonas, we directed the staff not to single shot, not to sue one man in an industry that is doing the same thing as the industry. So, this of necessity made him hesitate to look again and build. As they built, what is in front of us is a whole group of things which, if not settled, must go to trial—for instance, the 248 wearing apparel cases.

RESTRAINT OF TRADE INCREASES REQUESTED OF BUDGET BUREAU

Mr. EVINS. Mr. Chairman, this is one of your very important bureaus. You have 202 positions and you are asking for 202; you are not asking for an increase?

Mr. DIXON. That is correct. No increase.

Mr. EVINS. How much did you ask the Bureau of the Budget for?

Mr. DIXON. $1.5 million.

Mr. EVINS For this function?

Mr. DIXON. Yes.

Mr. EVINS. And how many additional personnel did you assign to this Bureau?

Mr. GLENDENING. Ninety-six.

BUREAU OF DECEPTIVE PRACTICES

Mr. EVINS. Let us turn to the Bureau of Deceptive Practices. Place pages 65 to 75 in the record.

(The pages referred to follow:)

Bureau of Deceptive Practices

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	33	$183,000	35	$201,000	2	$18,000
Division of Food and Drug Advertising	29	272,000	32	309,000	3	37,000
Division of General Advertising	21	222,000	22	246,000	1	24,000
Division of General Practices	16	155,000	17	174,000	1	19,000
Division of Compliance	13	146,000	14	163,000	1	17,000
Division of Scientific Opinions	12	148,000	13	169,000	1	21,000
Total, personal services	124	1,126,000	133	1,262,000	9	136,000
Travel		34,000		52,000		18,000
Other expenses		89,500		93,500		4,000
Total	124	1,249,500	133	1,407,500	9	158,000

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. The Bureau's general responsibility to prevent deceptive practices extends to all commercial activities which cross State lines, with few exceptions, and the Bureau has specific responsibility to prevent false advertising of food, drugs, therapeutic devices, and cosmetics. The Bureau also monitors radio, television, and printed advertising.

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 Division of Compliance.

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.

The steadily mounting backlog of cases and the increasing demands upon the Bureau for additional work requires an increase in manpower. In order to provide prompt and effective law enforcement and increased consumer protection this Bureau requests an increase of $61,000 to provide nine additional employees in fiscal 1964, $15,000 for necessary promotions of the present staff, and $60,000 for increased pay costs. Additional costs of travel and other expenses will amount to $22,000 making a total Bureau request of $158,000.

OFFICE OF THE DIRECTOR

Increases requested 1964

To provide stenographic and clerical service for the staff attorneys, an increase of two GS–4 clerk-stenographers at a cost of $8,000 and $10,000 for increased pay costs.

INVESTIGATION AND LITIGATION

The investigation and trial work of the Bureau before hearing examiners and the Commission is carried on by three divisions of the Bureau: that is, the Division of Food and Drug Advertising, the Division of General Advertising, and the Division of General Practices. The Division of Food and Drug Advertising handles matters involving food, drugs, devices, cosmetics, economic poisons,

products affecting the public health, and matters involving radio and television advertising; the Division of General Advertising handles matters involving all products advertised or sold in commerce, excepting food, drugs, etc., as mentioned above; and the Division of General Practices handles matters involving alleged deceptive labeling, misrepresentation by house-to-house salesmen, lotteries, and all other deceptive business practices.

New matters appearing to warrant investigation are reviewed by an attorney in one of these divisions, to determine initially whether the requisite elements of jurisdiction, public interest, and probably deception seem to be present. Investigation if decided upon may be conducted by ordinary correspondence, or by demand for a corporation to file special report under section 6(b) of the Federal Trade Commission Act, or by referral to the Bureau of Feld Operations with request for field investigation. The Bureau attorney may, as a result of the investigation, recommend that the file be closed, that an informal assurance of discontinuance be accepted in disposition of the matter, or that formal order to cease and desist be sought. The same attorney is responsible for a matter from its inception until final disposition. A matter may at any stage be referred to the Bureau of Industry Guidance when it appears that the procedures of that Bureau would be appropriate and efficacious.

If issuance of complaint is decided upon, the attorney participates in consent settlement negotiations or pretrial conferences, and engages in trial work to present evidence, proposed findings, briefs, and arguments in support of the complaint before a hearing examiner or the Commission.

Attorneys of the Division of Food and Drug Advertising may perform courtwork in obtaining injunctions to prevent dissemination of false advertisements of food, drugs, devices, and cosmetics under section 13 of the Federal Trade Commission Act, and these attorneys prepare such cases for certification to the Attorney General of the United States for criminal prosecution under section 14 when warranted. All of the investigating and trial attorneys may appear in court to seek enforcement of subpenas.

Deceptive practice applications for complaint received during fiscal year 1962 numbered 5,519 representing a 48 percent increase over the 3,727 received during the previous year, and an increase of 55 percent when compared with the average of 3,557 received during the preceding 5 years. This increase is believed to reflect a growing public awareness of the service which the Commission is prepared to render in the important area of promoting nondeceptive competition.

The Bureau initiated 897 investigations during fiscal year 1962, and completed 788. The number completed compares with 896 in fiscal 1961 and 665 in fiscal 1960. A total of 1,183 were pending on June 30, 1962, as compared to 1,035 a year ago.

The investigations completed in fiscal 1962 included 92 in which complaints issued, plus 40 in which complaints had been approved by the Commission but were pending consent settlement negotiations at the year end. A total of 278 other investigations were disposed of during the year on the basis of informal assurances that questioned practices had been discontinued without intent to resume. Twenty-three of those assurances were in the form of stipulations to cease and desist.

A number of the investigations were referred to the Bureau of Industry Guidance for use in the drafting or administration of rules or guides designed to prevent deceptive practices on a voluntary and industrywide basis. The investigations thus referred included matters of possible deception in regard to manufacturer list prices, foreign origin disclosures, labeling of furniture, and advertising of room air conditioners. The Bureau during the year cooperated with the Bureau of Industry Guidance in the drafting of rules and guides, and aided in the rendering of advisory opinions by that Bureau.

Of the 897 investigations instituted during the year, 204 involved allegedly deceptive advertising of food, drugs, cosmetics, or therapeutic devices in violation of section 12. The remainder were under section 5.

The Berlin crisis and other international disturbances provided the launching pad for the use of "scare" tactics and other methods of false and deceptive advertising to promote the sale of fallout shelters, shelter equipment, and radiation protection devices. Numerous complaints were received as a result of a wide and intensive, although short-lived, advertising program promoting the sale of fallout shelters. As a result of investigations in this field, most of these matters have been settled on an informal basis.

A project involving more than 200 vendors of antibiotics used in the treatment of mastitis in cattle has been concluded. This Bureau's goal, successfully attained, was to obtain informal assurances that advertising for such products would contain warning of possible milk contamination following their use.

Another significant investigation involved the use of an arrangement whereby purchasers of groceries at supermarkets would be given credit in the nature of a bonus or dividend toward the purchase of appliances. It appeared that in some instances the price of the groceries may have been increased to compensate for the value of the bonus appliance, and in other instances the usual or customary price of the appliance may have misrepresented. This method of merchandising was having serious economic impact in several sections of the country, with many imitators threatening to adopt it. The investigation was brought to prompt conclusion, in less than 6 months' time, on the basis of voluntary assurances that the questioned practices had been discontinued.

Of the 132 formal complaints which were issued or approved in deceptive practice cases during fiscal year 1962, 58 were accompanied by simultaneously issued consent orders, pursuant to procedures adopted in July 1962, requiring respondents to cease and desist from use of the acts and practices charged in the complaints to be deceptive. The entry of such an order does not constitute a finding or an admission that respondents have violated the law. Orders in this type of case prohibited the use of such unlawful practices as—

Advertising of a drug preparation as a cure for rheumatism, arthritis, insomnia, constipation, or blindness;

Advertising of vitamin or mineral preparations for tiredness, poor appetite, or weakened resistance without disclosing that most persons who experience such symptoms will not derive benefit from the use of such a preparation;

False advertising as to efficacy of a bed-wetting preventive;

False advertising as to health benefits of children's shoes;

False advertising of tests purporting to show superiority of Crest toothpaste in preventing tooth decay;

Bait advertising and deceptive quality, price and guarantee claims in selling storm windows, house paint, floor tile, and other home improvement products;

False claims as to safety, and failure to disclose potential danger to health of users, in selling plastic metal menders and toys;

Misrepresentation of correspondence courses and vending machines, through false claims of employment and of earnings;

Misrepresentation of the durability of burial vaults;

Misrepresentation of the leather content of shoes, wallets, and briefcases;

Misrepresentation of the savings to be achieved through purchase of food-freezer plans;

Misrepresenting the country of origin and fictitious pricing of perfume;

Deceptive pricing of clothing, electrical appliances, housewares, auto seat covers, and other merchandise;

Misrepresentation of vendor as owner or operator of a "mill" or manufacturing plant:

Deceptive use of term "guaranteed" usually in conjunction with other charges (numerous cases);

Misrepresenting size and usual price of sleeping bags;

Selling previously used lubricating oil or auto parts without disclosing the used or secondhand character thereof.

Formal complaints which were issued during fiscal 1962 in contested cases included such charges as misleading use of term "wholesale" or "wholesale prices" by mail-order houses; misrepresentation of advertiser's own usual price or usual price of goods in the advertiser's trade area; misrepresenting or deceptively concealing the country of origin of merchandise; misrepresenting vendor as manufacturer of product; misrepresenting the usefulness of legal forms in a "do-it-yourself" will kit sold by mail; use of deceptive advertising and threats of legal action against children to sell Cloverine Salve; use of bait advertising and deceptive price, quality, and guarantee claims to sell storm windows, paint, awnings, and other home improvement products; use of deceptive packaging to misrepresent the size of wrapping paper; false advertising as to optical properties of sunglass lenses; and false advertising as to efficacy of a treatment for ingrown toenails.

Cease-and-desist orders were issued during fiscal 1962 in 213 cases as a result of work by attorneys of the Bureau of Deceptive Practices. This included 176 cases under section 5 or 12 of the Federal Trade Commission Act (137 under sec. 5, and 39 under sec. 12), and 37 wool, fur, or textile cases which were pending with this Bureau's attorneys at the time of the reorganization on July 1, 1962. As previously indicated, 58 of the section 5 or 12 orders were under the simultaneous complaint-and-order procedure adopted in July 1962. The Bureau's attorneys also completed supplemental litigation in 20 cases during fiscal 1962, involving matters such as petitions for modification of cease-and-desist orders.

Consent orders obtained during fiscal 1962 under procedures which were applicable to cases pending on July 1, 1962, and orders obtained during the year in contested cases, included the following:

Richardson-Merrell, Inc., formerly known as Vick Chemical Co., consented to an order prohibiting claims that the product designated "Vicks Double-Buffered Cold Tablets" will cure a common cold or shorten its duration.

Zenith Laboratories, Inc., consented to an order prohibiting use of the term "quality control" and misdescription of its laboratory facilities and procedures, in advertising drugs.

False claims respecting savings to be realized through purchase of drugs by mail were prohibited in consent orders accepted from National Drug Plan, Inc., and from Nutri-Health, Inc.

Claims that a drug preparation will cure alcoholism were prohibited in consent order accepted from Soberin Aids Co.

Claim of sedatives being harmless and safe to take were prohibited by consent orders accepted from Thompson Medical Co., Inc., and from Sedaquil, Inc.

Murray Space Shoe Corp., was prohibited from claiming that its shoes will correct, prevent, or relieve arthritis, high blood pressure, indigestion, or stomach ulcers.

Preticketing and other fictitious pricing of merchandise was prohibited by order issued against Rayex Corp., and against George's Radio & Television Co., Inc.

Use of term "Milan," implying Italian manufacture, was prohibited respecting hats made in Japan, by order against Korber Hats, Inc.

Use of deceptive television demonstrations as to the performance of shaving creams was prohibited by orders issued against Colgate-Palmolive Co. and its advertising agency, and against Carter Products, Inc., and its advertising agency.

An order entered against Bakers Franchise Corp., prohibits use of misleading statements to designate the caloric content or weight-reducing properties of bread.

Order against Damar Products, Inc., prohibits claims that a vibratory massage device will be of benefit to effect weight reduction.

Bait advertising and other deceptive practices in the sale of houses and home improvements were prohibited by orders entered against Lifetime, Inc., Pati-Port, Inc., Luxury Industries, Inc., Celtic Construction Co., Inc., and Crawford Industries, Inc.

Misrepresentation of imported clocks as having been made by the old and well-known Waltham Watch Co., of Waltham, Mass., was prohibited by order against Waltham Watch Co., of Chicago.

Work program, fiscal 1964

The 1,183 deceptive practice investigations pending on June 30, 1962, represented an increase of about 15 percent as compared with the 1,030 which were pending a year earlier, or with the 1,035 which were pending 2 years earlier. This growth in the backlog is, we think, attributable to the 50 percent increase in complaint letters received during fiscal 1962, and to the increasing use of industrywide procedures.

Two hundred and thirty-six investigations were more than 2 years old on June 30, 1962, which represents an increase of 45 percent as compared with 163 which were of that age on June 30, 1961. Part of this increase is attributable to the necessary training of new personnel. But mainly it is due to involvement of the available experienced staff on other important matters such as the processing of tremendous numbers of new applications for complaint; the initiating of new investigations, frequently on a multiple-case or industrywide

basis, to meet demands from Congress and the public; and the trial or negotiation for settlement of cases already in litigation. By the year end, substantial progress had been made toward reducing the backlog of investigations over 2 years old. For example, 34 of them were in process of having complaints prepared, 24 were being further investigated through use of section 6(b) orders, and 14 had been referred to the Bureau of Industry Guidance for use in promulgating rules or guides.

The investigations pending on June 30, 1962, included several multiple-case or industrywide projects, as emphasis had been shifted during the year from the individual-case approach to the solving of problems on an industrywide or project basis. The purpose is to effect consistent, simultaneous, and equitable correction of unlawful practices among competing firms when they are engaged in similar unlawful practices, so as to avoid, insofar as practicable, the placing of any individual firm at a competitive disadvantage. In five projects, these investigations are being conducted under the authority of section 6(b) of the Federal Trade Commission Act. The project investigations under section 6(b) involve advertising of cough and cold treatments, reducing devices, analgesics, air-filtering devices, and hemorrhoid treatments. Investigations on an industrywide or project basis were also in progress with regard to possible deception in television demonstrations of toys; practices used in connection with radio and television rating services; survey claims, such as claims that 9 out of 10 doctors recommend a product; questionable therapeutic claims in the advertising of mineral and vitamin preparations; advertising of food-freezer plans; advertising of vegetable oils to reduce cholesterol in the blood; advertisting of products to prevent baldness or grow hair; advertising as to efficacy and safety of insecticides; advertising of fallout shelters and shelter supplies and equipment; advertising of insurance sold by mail; advertising as to health benefits of mattresses; advertising of lots or home sites; advertising of do-it-yourself will kits; possible fictitious pricing and misuse of term "wholesale" by catalog houses; advertising of special subscription prices for magazines; possible deception in labeling plastic metal menders; sale of merchandise through use of gaming devices; possible misrepresentation as to composition of cigars; and possible deceptive practice in charging rental on automobiles.

Other investigations being conducted involved a wide variety of charges and products, such as misrepresentation of correspondence courses, fictitious pricing, use of deceptive guarantees, bait advertising, misrepresentation of home improvement products and seeing previously used goods without disclosing the used or secondhand character thereof.

The backlog of work existing on June 30, 1962, is estimated to constitute more than a year's work for present staff. The increased funds being requested are deemed necessary not only to reduce the backlog of old cases and deal with the press of new matters including treatment of more of the matters on a project basis, but also to reduce substantially the elapsed time between our receipt of a complaint letter and our stopping of the questioned practice, if it is deceptive. Delay in the treatment and disposition of cases is still our main problem. The new rules of practice greatly shorten the time for trial and disposition of a formal action, by requiring that the attorney supporting the complaint be ready to go to trial when he recommends issuance of the complaint. But this only makes more essential the proper development of evidence in an investigation before the matter is presented to the Commission for approval of the draft of complaint. The quick development of that evidence requires careful work and management by an attorney skilled in both the investigational and trial phases of the Commission's deceptive practices work. Recent experience indicates that about two-third of the cases for complaint will be settled by consent orders, and one-third will go to trial, so the attorney preparing a case must be qualified to try it.

It is estimated that about 60 percent of the 1,183 investigations which were pending on June 30, 1962, will result in the issuance of formal complaints or the taking of corrective action by other means, as through acceptance of assurances of discontinuance.

Increased funds are also needed to assure the availability of adequate staff to deal with any matters which warrant seeking of injunctions under section 13 or criminal actions under section 14 in support of formal complaints involving

the advertising of foods, drugs, devices, and cosmetics. A substantial amount of work is required to develop the necessary evidence for presenting and prosecuting such actions before the courts.

Additional staff is needed to make sure that prompt attention is given to matters referred from the Bureau of Industry Guidance involving indicated violations of rules or guides, where voluntary compliance could not be obtained. Failure to take prompt action on such referrals may break down the fabric of compliance throughout an industry.

It is also anticipated that a growing amount of work for attorneys and scientists of the Bureau of Deceptive Practices will be entailed in aiding the Bureau of Industry Guidance to furnish advisory opinions in deceptive practice matters. Additional personnel are needed for this purpose.

The Bureau's responsibility to prevent deceptive practices extends to a tremendous volume of business activity. Total expenditures by business concerns for advertising during the calendar year 1961 were indicated to be nearly $12 billion. According to the most recent data which was published in Advertising Age of August 27, 1962, each of the 100 largest advertisers spends in excess of $6,900,000 per year for advertising, an amount which is more than 6 times greater than the total annual allocation of funds to the Bureau of Deceptive Practices. Of the 100 largest advertisers, only about 14 are subject to regulation of advertising by other Federal agencies. The other 86, including manufacturers of food, drugs, cosmetics, cigarettes, soap, home appliances, automobiles, paper products, floor coverings, gasoline, and tires, are subject to supervision of advertising and other regulation by the Commission. The Bureau's funds must, of course, be used not only for regulation of advertising, but for prevention of deceptive labeling, misrepresentation by house-to-house salesmen, and numerous other forms of deceptive schemes and practices.

MONITORING OF ADVERTISING

One of the functions of the Division of Food and Drug Advertising is to monitor radio and television commercials, newspapers, magazines, and other printed material. In reviewing radio and television scripts, all networks submit commercials disseminated during 1 week of each month and each individual television station submits scripts covering a 24-hour period each 3 months. Individual radio stations are requested to submit scripts covering a broadcast day once, twice, or four times each year, based on coverage of the individual station.

Newspapers are requested according to a schedule permitting a daily sampling typical of those published throughout the Nation, considering geographical location, metropolitan and rural areas and other appropriate factors. Similarly, magazines are obtained on a basis which provides a representative spot checking.

In addition to broadcasting networks, individual stations submit continuities as follows:

Radio stations:	
Group I (4 times yearly)	463
Group II (2 times yearly)	850
Group III (1 time yearly)	3,467
Total radio stations	4,780
Television stations	657

There were reviewed in radio and television advertising the following number of continuities, and in the case of newspapers and magazines, the number of pages:

Radio-television (scripts)	419,265
Newspaper-magazine (pages)	278,741

The monitoring function serves the various bureaus and divisions of the Commission and in some instances, other Government agencies. During the year, approximately 43,880 advertisements were furnished to operating divisions of the Commission. Additionally, 8,828 advertisements for alcoholic beverages were forwarded to the Internal Revenue Service, the Federal agency having primary responsibility for such advertising.

Spot-check monitoring of radio and television commercials disseminated in the Washington and Baltimore areas is maintained. This includes visual monitoring in the case of television commercials. Sound kinescope recordings of television commercials are made when they can be of assistance to the Commission's work.

The quantity and quality of advertising review which can be accomplished is dependent directly on the available staff. Considering the large numbers of letters of complaint which we receive, particularly with regard to television and radio advertising, it appears that our efforts in this area should be intensified. The addition of one advertising examiner is believed necessary for this work.

POSITIONS REQUESTED FOR DECEPTIVE PRACTICES

Mr. EVINS. You have 124 employees against 133 requested, an increase of 9. Who is the Chief of this Bureau?

Mr. DIXON. Mr. Murphy.

Mr. EVINS. Mr. Murphy, why do you need these nine additional employees?

Mr. GOTSCHALL. Mr. Murphy is not here, his wife is ill. He asked me to speak for him. We need these additional personnel to enable us to give prompter action. We have a lot of authority now to protect the consumers and businessmen from these deceptive practices but we need to give them more prompt attention. In the medical area we have these health claims and many products are being advertised in many cases to get you to take a proprietary pill when you might have a serious illness.

Mr. THOMAS. We will not practice medicine over there, will we?

Mr. GOTSCHALL. No, but we want to keep these people from advertising they can cure you of serious illnesses.

Mr. EVINS. Mr. Gotschall has been an able assistant to Mr. Murphy and we are glad to have him here today.

PROGRAM RATING SERVICES

Mr. BOLAND. Is this the Bureau that looks into question of television surveys?

Mr. GOTSCHALL. We do the monitoring.

Mr. BOLAND. I mean surveys by the rating services.

Mr. DIXON. We just issued an order to cease and desist that was consented to against these rating services.

Mr. BOLAND. I think this is important to small-town studios. These services are used by manufacturers and by Madison Avenue houses for the purpose of getting clients and they impress their clients with the watching audience of television and many times it injures small television studios. The FCC is interested in protecting the UHF stations in small towns and I think what you have done in this field is helpful to them.

Mr. DIXON. This was a very important investigation.

BUREAU OF TEXTILES AND FURS

Mr. EVINS. We will now take up the Bureau of Textiles and Furs. Place in the record pages 83 through 93.

(The pages referred to follow:)

Bureau of Textiles and Furs

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	16	$93,000	20	$112,000	4	$19,000
Division of Enforcement	16	137,000	27	235,000	11	98,000
Division of Regulation	63	479,000	83	637,000	20	158,000
Total, personal services	95	709,000	130	984,000	35	275,000
Travel		51,000		67,000		16,000
Other expenses		6,000		9,000		3,000
Total	95	766,000	130	1,060,000	35	294,000

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 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 laws 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 Flammable Fabrics 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 the 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.

Highly competitive conditions now prevailing in the textile industry are causing many manufacturers to use substitute materials in textile fibers of lower quality and cost in order to maintain established price structures for their products.

For the past few years there has been an ever-increasing volume of imported wool and nonwool fabrics and garments from abroad, and mills and manufacturers in the European and Asiatic countries are not always cognizant of the labeling and invoicing requirements set forth in our laws. Further, the generic names of fibers sometimes have a different meaning outside of the United States. Since foreign manufacturers are beyond the jurisdiction of the Federal Trade Commission so far as inspection of plants and records is concerned, this Bureau must continue to work closely with the Bureau of Customs in maintaining a close check on foreign imports subject to these laws. The Bureau is presently working with 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.

Inspections under the FTC Act reveal an increasing number of instances of inferior imported mink being passed off as American ranch mink. Also in view of a change in fashion trend looking toward greater market for darker mink, there has been an increasing number of cases involving dyed and tip-dyed mink

being passed off and sold as natural mink. As the darker mink is considerably more valuable, constant policing is necessary to control this practice.

In carrying out its enforcement under the Wool, Fur, Flammable Fabrics, and Textile Acts, the Bureau drafts substantive rules and regulations under each of these statutes. Such rules clarify and interpret the basic laws and provide for exemption of certain products from the provisions of the acts. When necessary, the Bureau drafts amendments to the rules. Under the Textile Act, the Bureau establishes generic names for manmade fibers. Also it maintains a Fur Products Name Guide under the Fur Act.

The Bureau has issued over 35,000 registered identification numbers under the Wool, Fur, and Textile Acts for identification purposes in connection with the required labeling of products subject to these statutes. In addition, it maintains a public register containing thousands of continuing guarantees filed with the Commission under these four acts.

The Bureau plans and supervises large nationwide compliance inspection and industry counseling programs 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 by the Bureau in an effort to acquaint industry with the requirements of the laws and with consumers regarding the benefits of the legislation.

The Bureau makes every effort to maintain voluntary compliance with the laws without the expense of costly litigation. However, whenever circumstances indicate voluntary compliance cannot be obtained, or that the violations appear deliberate, the Bureau carries on an effective and firm enforcement program leading toward the issuance by the Commission of cease and desist orders.

In this regard, it carries out the important functions of investigation of the litigative phases of all cases arising under the Wool, Fur, Textile, and Flammable Fabrics Acts. 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 750 cease and desist orders against concerns charged with violating the Wool, 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.

The Bureau of Textiles and Furs is unquestionably one of the most important operations in the President's program for additional efforts in consumer protection. If proper enforcement of these important consumer protection laws is to be effected additional employees must be made available to perform the necessary inspection, investigation, and litigation duties.

In fiscal year 1964 a total personal services increase of $275,000 is requested which will provide 35 additional employees at a cost of $226,000, $15,000 for promotions for the current staff, and $34,000 for additional pay raise costs. In addition, $19,000 will be required for travel and other expenses, making a total increase of $294,000.

OFFICE OF THE DIRECTOR

Increases requested, fiscal 1964

The only increase requested in the Office of the Director is in the stenographic pool, which section services both the Division of Regulation and the Division of Enforcement. The increased workload of the Bureau requires the services of two additional GS–4 stenographers and two GS–3 typists at an increased cost of $14,000, plus $5,000 for increased cost of the pay raise in 1964, a total of $19,000.

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, in the Bureau of Textiles and Furs, the Division of Enforcement encompasses the Compliance Section, which polices all of the Commission's cease and desist orders under each of these statutes.

The attorneys of this Division analyze complaints of violations of the acts received from the Division of Regulation and from sources outside the Commission. When violations appear to be of a serious nature, an investigation number is assigned to the case, and the matter is forwarded via the Bureau of Field Operations to trained field investigators with a detailed memorandum outlining the evidence required. When the report of investigation is received from the field the files are analyzed by the Division of Enforcement attorneys and 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 attorney assigned to the case prepares and handles the litigative phases of the matter before the Commission. If a consent order is offered to the respondent, this Division assists the Office of Consent Orders in settlement negotiations. Injunctions and condemnations, where necessary, are recommended to the Commission and the attorneys of the Enforcement Division handle the matters in the U.S. district courts. In addition, if the violations are willful and a criminal prosecution appears to be warranted, the trial attorneys make such recommendations to the Commission. If the Commission concurs and the case is referred to the Department of Justice, the Division of Enforcement attorneys assist the Department of Justice and the U.S. district attorneys in every way possible with the prosecution of the matter.

In fiscal year 1962, the Division of Enforcement had a Chief, one reviewing attorney, and five trial attorneys. Despite this small staff this Division, during the stated period, processed 190 cases, including 118 recommendations for complaint and 72 closings. This figure, broken down, makes an average of 38 cases concluded for each trial attorney.

During fiscal year 1962 the Commission issued 310 deceptive practice cease-and-desist orders which included 26 under the Wool Act, 88 under the Fur Act, 12 under the Flammable Fabrics Act, and 18 under the Textile Act for a total of 144 cases. Therefore, the Bureau of Textiles and Furs accounted for over 46 percent of the deceptive practice orders issued by the Commission during this period.

The compliance section of the Division of Enforcement consists of three attorneys, one of whom joined the staff in November 1961 and another who joined the staff in January 1962. When the Division took over the compliance work formerly assigned to the General Counsel's Office on July 1, 1961, there were 617 orders in effect under the 4 statutes administered by this Bureau. During fiscal year 1962, 144 additional orders were added making a total of 761 cease-and-desist orders administrated by the Division of Enforcement as of June 30, 1962. In addition, this Division also polices over 250 stipulations which were entered by the Commission with respondents throughout the country in previous years. Therefore, it is now the responsibility of this Division to police several thousand corporate and individual respondents under cease-and-desist orders of the Commission for violation of the aforesaid acts.

At the beginning of fiscal year 1962, the Division of Enforcement had 83 active cases in which compliance reports had not been received and filed. In addition, the Division had 51 civil penalty investigations to be analyzed, as well as 47 compliance inspections and civil penalty investigations in the field and 6 civil penalty suits pending with the Department of Justice.

The Division of Enforcement also includes the Commission's testing laboratory which during fiscal year 1962 made 458 fiber content analyses of fabrics and fibers, conducted 173 burning tests under the Flammable Fabrics Act and 594 tests of fur fibers to determine if dye, bleach, or other artificial coloring had been added to the furs. The laboratory ordinarily employs a chemist and a textile technologist; however, for a large part of the year, the laboratory has been without a chemist.

The caseload of the attorneys of the Division of Enforcement is far too heavy for the Division to give the attention to each case that is desirable. As a result, matters that should be investigated have at times been passed over because of lack of personnel. The future caseload will continue to increase as it has over the past few years particularly as to the Textile Act which is still relatively new.

If the enforcement of the textile and fur labeling laws is to be carried out so that businessmen and the consuming public are protected from false and misleading labeling, invoicing, and advertising, it is imperative that additional funds be appropriated for the Division of Enforcement.

Increases requested fiscal 1964

3 GS–13 attorneys, 3 GS–11 attorneys, 3 GS–9 attorneys, 1 GS–7 attorney, 1 GS–9 chemist; total, 11	$88,000
Additional cost of pay raise	5,000
Promotions	5,000
Total	98,000

Division of Enforcement: Workload statistics, fiscal 1962

	Wool	Fur	Flammable fabrics	Textile	Sec. 5 FTC	Total
Investigations initiated during year	14	103	10	18		145
Formal complaints recommended	15	68	17	17	1	118
Cease and desist orders issued	26	88	12	18		144
Investigations closed	20	32	4	14	2	72
Compliance cases opened:						
New orders	26	89	12	17		144
Reopened	10	10		2		22
Formal compliance investigations initiated	15	28		2		45
Compliance reports received and filed	25	78	6	9	2	120
Outstanding cease and desist orders as of June 30, 1962	290	424	29	18		761
Outstanding stipulations as of June 30, 1962	86	169				255
Laboratory tests performed	287	594	173	149	22	1,224

Active cases in which compliance reports were not received and filed as of June 30, 1962	83
Civil penalty and compliance investigations to be analyzed as of June 30, 1962	51
Civil penalty compliance investigations in the field as of June 30, 1962	47
Civil penalty suits pending with the Department of Justice	6

DIVISION OF REGULATION

This Division is responsible for the voluntary compliance work under the Wool, Fur, Textile, and Flammable Fabrics Acts. Among its duties are inspection and industry counseling, rendering interpretations and opinions, maintenance of registers of continuing guaranties filed under the four acts, the issuance of registered identification numbers under the Wool, Fur, and Textile Acts and the maintenance of records pertaining to the Division. This Division also drafts rules and regulations under the said statutes whenever it appears that amendments should be made.

The Division has a staff of field investigators in Boston, Mass.; New York, N.Y.; Philadelphia, Pa.; Washington, D.C.; Atlanta, Ga.; Charlotte, N.C.; Miami, Fla.; New Orleans, La.; Dallas and Houston, Tex.; Kansas City and St. Louis, Mo.; Denver, Colo.; Chicago, Ill.; Cleveland, Ohio; San Francisco and Los Angeles, Calif.; Seattle, Wash.; and Portland, Oreg. During fiscal 1963 it is planned to install an investigator in Minneapolis, Minn.

These investigators, in addition to carrying on inspections and industry counseling in all phases of manufacturing, processing, and distribution of textile and fur products also investigate formal cases leading to complaint under the direction of the Bureau of Field Operations.

The primary purposes of the Wool, Fur, Textile, and Flammable Fabrics Acts are the protection of the consumer against the misbranding, false invoicing, and false advertising of wool, textile, and fur products, and the sale of clothing and fabrics dangerously flammable. These acts are operative in all of the 50 States, the District of Columbia, and the insular possessions of the United States.

To insure that the public receives the protection intended by Congress, it is necessary to police the manufacture and distribution of products subject to these laws. Obviously, 100 percent inspection or compliance investigation of the industries involved would be impossible. Consequently, it is necessary that at least token policing be carried on in strategic areas according to well-organized plans.

The present inspection and investigation staff is grossly inadequate to carry on the tasks required under these four laws; therefore, it is of paramount importance that the staff of investigators and attorneys policing compliance of the aforesaid four acts be substantially increased.

Division of Regulation: Workload statistics, fiscal 1962

	Textile	Wool	Fur	Flammable fabrics
Number of inspections made	3,235	2,025	942	2,967
Products inspected (sampling method, except furs)	55,459,940	4,894,100	86,721	51,866,536
Deficiencies noted	1,801,941	147,609	12,466	----------
Registered numbers issued	1,641	337	189	----------
Continuing guarantees filed	470	918	540	1,002
Advertisements examined	250,714	3,147	25,057	----------
Interpretations and opinions	26,572	13,916	9,396	1,584

Assurances of discontinuance	1,425
Incoming correspondence	11,971
Outgoing correspondence	14,954

Increases requested, fiscal 1964

1 GS–11 attorney, 3 GS–9 attorneys, 9 GS–9 investigators, 7 GS–7 investigators; total, 20	$124,000
Promotions	10,000
Additional cost of pay raise	24,000
Total	158,000

Bureau of Textiles and Furs—Personnel as of Dec. 31, 1962

	Total	Attorneys	Investigators	Field attorneys and investigators	Chemists	Clerical
Professional:						
GS–17	1	1	----------	----------	----------	----------
GS–16	1	1	----------	----------	----------	----------
GS–15	5	5	----------	----------	----------	----------
GS–14	6	6	----------	----------	----------	----------
GS–13	7	2	2	3	----------	----------
GS–12	8	2	----------	6	----------	----------
GS–11	3	----------	----------	3	----------	----------
GS–9	23	2	----------	21	----------	----------
GS–7	10	1	----------	8	1	----------
Stenographic and clerical	30	----------	----------	----------	----------	30
Total	94	20	2	41	1	30

NOTE.—Total annual salaries, $726,805

INCREASES REQUESTED FOR TEXTILES AND FURS

Mr. EVINS. For 1963 you had 95 positions and $766,000. For 1964 you are requesting 130 positions and $1,060,000, an increase of 35 positions and $294,000.

Why do you need 35 more people in this bureau?

Mr. STRINGER. We are asking for 16 additional field investigators, 14 attorneys, 1 chemist, and 4 stenographers. What we are doing

with the present staff is only scratching the surface and I think for the protection of consumers, businessmen, and the domestic textile industries we need to look into the imports of textiles more.

Mr. EVINS. What grades are these investigators in?

Mr. GLENDENING. Grades 7 and 9.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. DIXON. We have the obligation to see that the truth is told, to protect the American manufacturer as well as the consumer.

Mr. EVINS. You are asking for one GS–11 attorney, three GS–9 attorneys, nine GS–9 investigators, and seven GS–7 investigators.

Mr. DIXON. Yes. We are asking for 4 attorneys and 16 investigators. Then on page 88 there is another breakdown.

Mr. EVINS. Mr. Stringer, you convinced the Bureau of the Budget you need these but you have not sold us as to why you need this number.

Mr. STRINGER. We need them for this reason: We are doing a good job insofar as we can with the personnel we have, but, as I said, we are just scratching the surface. A lot of misbranded goods are going to the public that we do not have time to take care of. On the matter of imports, I saw figures on woolens entering the country.

LABELING OF IMPORTED FABRICS

Mr. EVINS. Is there not a law requiring labeling when goods come in the United States?

Mr. STRINGER. It comes under these laws administered by the Commission.

Mr. JONAS. Will you yield there?

Mr. EVINS. Yes.

Mr. JONAS. How do you check the imports? Do you have inspectors at the customs service?

Mr. STRINGER. We go to the importers themselves. At times customs has furnished us with samples, but they have informed us it is a big job and if it is to be done it has to be done by us.

Mr. OSTERTAG. Who does that? Not the attorneys?

Mr. STRINGER. No, these are investigators.

Mr. JONAS. What do you investigate? Say X company imports 1,000 fur jackets, where do you go to investigate?

Mr. STRINGER. We see if they are labeled correctly. Textiles would be a good example. We test it by laboratory analysis to see if the contents are as represented and if not we enter a complaint.

Mr. JONAS. What do you do, just spot check?

Mr. STRINGER. Yes. That is all we can do, obviously.

TEXTILE PRODUCTS INSPECTION

Mr. DIXON. Mr. Congressman, in my prepared summary I tried to impress you with the fact there are 100 different industries engaged in the manufacture of textile products. Mr. Stringer has told you we are just scratching the surface. The four consumer laws Congress passed gave us responsibility not only to enforce but to inspect. We have to inspect the manufacturer, the retail outlet, and all facets to

see that these goods are not only properly labeled as to content but properly invoiced. The only way to do that is by being on the site and spot checking.

Mr. JONAS. You cannot ever do anything more than spot check?

Mr. DIXON. That is right, but we have done a tremendous amount of good. I do not think the industry favored the original Wool Act at first but after it passed the industry is for it. The same is true of the Fur Act.

Mr. OSTERTAG. Are you the only agency responsible under those acts?

Mr. DIXON. Yes. We are charged with the administration and enforcement of four acts: The Wool Products Labeling Act, the Fur Products Labeling Act, the Flammable Fabrics Act, and the Textile Fiber Products Identification Act. On page 91 there is a breakdown. The figures are quite impressive as to what we have inspected and sampled, the number of inspections made, the deficiencies noted, and so on. In fiscal 1962 we inspected over 55 million textile products.

Mr. EVINS. Say one man goes in a big department store in Chicago. How many suits of clothes could he inspect in a day?

Mr. STRINGER. It would run in the hundreds or thousands.

Mr. DIXON. The point is we can only have inspectors in so many stores.

Mr. EVINS. And you only inspect those where there is a suspicion of violation?

Mr. DIXON. And our men do not go and say, "Aha, we have caught you in violation of the law." We catch a repeater doing this before we sue him.

Mr. EVINS. You have been enforcing this law for several years and is not industry complying rather substantially?

Mr. DIXON. I think there is a great deal of compliance in this industry, but I think the number of matters we could straighten out is greatly limited by the number of calls we can make.

Mr. BOLAND. A lot of people do not want guidelines, of course.

Mr. DIXON. I can tell you there is nothing that affects the consumer faster than this. If a person buys a seal coat she does not want a possum coat.

Mr. BOLAND. Do you find many violations in mislabeling on imported fabrics?

Mr. STRINGER. Yes, a great many; particularly on woolen fabrics from Italy, because that is the center of reworked wool of the world. We do not have the manpower to go into it as we should, but we have orders against a number of importers of woolen fabrics from Italy and it is a common complaint in the textile industry as to how the Italian situation is adversely affecting the American textile merchant.

Mr. EVINS. Off the record.

(Discussion off the record.)

BUREAU OF FIELD OPERATIONS

Mr. EVINS. We will turn to the Bureau of Field Operations.

Place in the record pages 94 through 99.

(The pages referred to follow:)

Bureau of Field Operations

	Allotment fiscal year 1963		Requested fiscal year 1964		Increase fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	6	$68,000	6	$71,000	----------	$3,000
Field offices	290	2,202,000	295	2,352,000	5	150,000
Total personal services	296	2,270,000	301	2,423,000	5	153,000
Travel	----------	295,000	----------	300,000	----------	5,000
Total	296	2,565,000	301	2,723,000	5	158,000

BUREAU OF FIELD OPERATIONS

All field investigative work, including the holding of investigational hearings and the taking of depositions, is performed by the Bureau of Field Operations. This work is done by the staffs of attorneys located in the field offices.

For the past several years the Commission has operated 10 field offices with a branch office of San Francisco established in Los Angeles. Within the past year the Commission has established a branch office of New Orleans in Houston, Tex. Effective February 1, 1963, Los Angeles will be converted to a full field office operation making a total of 11 field offices. In addition to investigational work, attorneys in the field offices under Rules of Practice, Procedure and Organization adopted June 1962, are required to negotiate consent settlements with respondents at the investigational stage, participate in the trial of litigated cases under the general supervision of the enforcement bureaus. All matters handled by the Bureau of Field Operations are selected by the Bureau of Restraint of Trade, Bureau of Deceptive Practices, Bureau of Textiles and Furs, or by the Commission itself. In all instances in which field investigations are required the files are submitted to the Bureau of Field Operations for the purpose of developing all facts and evidence necessary to determine whether violations of any of the statutes administered by the Commission appear, and, if so, the exact nature and extent of such violations.

The Bureau of Field Operations not only has the responsibility of conducting the initial investigations discussed in the preceding paragraph, but also conducts investigations to determine whether respondents are complying with orders to cease and desist that have been entered by the Commission, and where violations are discovered this Bureau acquires information and data in suitable form (usually affidavits) for certification to the Attorney General for initiation of civil penalty actions in the U.S. district courts under section 16 of the Federal Trade Commission Act.

WORK PERFORMED, FISCAL YEAR 1962

At the beginning of the fiscal year 1962 there were pending in the field offices 991 cases. During that year, 1,177 additional matters were referred for investigation. Thus, during fiscal year 1962 the 10 field offices had 2,168 numbered matters on their dockets for investigation under the Federal Trade Commission, Clayton, Textile, Wool, Fur, and Flammable Fabrics Acts. Included in this total are 37 cases referred to the Commission by the Attorney General for investigation to determine whether respondents named in these decrees, which were obtained by the Antitrust Division, were complying with the terms of such decrees. These are very extensive and time-consuming investigations. In this period investigations of 1,329 cases were completed, which is an average of 8.4 cases per attorney. Five hundred and thirty of these investigations were in the restraint of trade field, including 5 of those matters submitted by the Attorney General: 749 were in the deceptive practice field; and 50 in the textile, wool, fur, and flammable fabrics field.

At the close of the fiscal year 1962 there were 839 cases pending in the Bureau of Field Operations field offices, 345 of which were restraint of trade cases (including 32 decrees submitted by the Attorney General) ; 373 were deceptive practices cases; and 121 were textile and fur cases.

WORKLOAD IN FISCAL 1963

It is estimated that attorneys in the field offices will be called upon to complete approximately 2,500 investigations during fiscal year 1963, and will have not only the responsibility for negotiating consent settlements at the investigational stage in many of these matters but will be required to draft proposed complaints and orders and participate in the trial of a considerable number of litigated cases. The increase in the number of cases in fiscal years 1963 and 1964 will result from new programs and procedures adopted by the Commission, and from receipt of a larger number of applications for complaints. The number of applications for complaints for fiscal year 1962 increased 42 percent over the number received in fiscal year 1961. Such applications are expected to continue at the same or an increased rate during fiscal years 1963 and 1964.

Under plans and programs now in effect and being initiated, it is anticipated that many of the applications for complaint received will not only result in an investigation of the particular firm or corporation against whom complaint is lodged, but will result in an industrywide inquiry of all competitors which may be engaged in similar practices, particularly since the policy of the Commission at present is to attempt to correct violations of the laws administered by it on an industrywide basis. Industrywide investigations expand the amount of investigative work required in direct proportion to the number of concerns involved. While this procedure is much more time-consuming, it unquestionably provides more equitable treatment to all members of industry and of the general public.

It is hoped and expected that as the recently hired attorneys gain experience the average case production per attorney in the Bureau of Field Operations will be increased during 1963, but even an increase of 10 percent in production will leave a backlog of approximately 1,000 cases at the end of the fiscal year.

INCREASES REQUESTED, 1964

Each of the enforcement bureaue, i.e., Bureau of Restraint of Trade, Bureau of Deceptive Practices, and Bureau of Textiles and Furs, plan extended and intensified programs to effect more efficient, widespread, and uniform treatment under the statutes administered by the Commission, particularly through the initiation of industrywide action. To assist in carrying out these programs, reduce an anticipated backlog of approximately 1,000 cases, conduct expeditious investigations wherever required, negotiate and handle an increased number of consent settlements at the investigational stage, and to participate more fully in the trial of litigated cases, will require an increase in personnel and travel funds.

Also, it is anticipated that an expanded program of enforcement will result in the submission to the Bureau of Field Operations of an increased number of requests for investigation looking to the enforcement of orders to cease and desist. Investigations of this nature are generally more time-consuming than initial investigations, for the reason that evidence is required in the form of documents and affidavits which may be used in court proceedings.

Under rules of practice and procedure adopted June 1962, for litigated cases (sec. 4.14(d)) where respondents are not willing to dispose of the proceeding by entry of a consent order, hearings are promptly commenced and must be held at one place and continue without suspension until concluded. This procedure means that there is no opportunity to delay initiation of or interrupt hearings to develop, through investigation, other information and data for introduction into evidence, but investigations must be complete in all respects before complaint is issued. That is to say that the facts and evidence developed during an investigation must be not only sufficient to give the Commission reason to believe that a violation has occurred, but to fully establish during a continuing trial that a violation did occur and that evidence in the file is sufficient to support any charge which may appear in a complaint. Continuing trial is desirable

to expeditiously conclude hearings. However, this places a greater burden on this Bureau's attorneys in the field offices to fully establish by oral and written evidence violations discovered in all cases except where they are successful in negotiating a consent settlement.

As has been previously stated, the average number of field investigations which were completed by each attorney in the field offices was 8.4 during fiscal year 1962. While it is hoped to increase this average performance in fiscal year 1964, the estimated number of additional attorneys in the field offices and additional travel funds shown in the estimates that follow will be required to carry out the program of the field investigational work of the Commission for that year.

To accomplish the investigational needs of these enforcement programs in fiscal year 1964, it is estimated that the 11 field offices (and 1 branch office at Houston) will require the addition of five attorneys (three GS–9 and two GS–7), at a cost of $28,000, $105,000 for increased pay costs, and $20,000 for the cost of promotions of the current staff, making a total increase of personal services of $153,000. An increase of travel funds in the amount of $5,000 is also requested making a total Bureau increase of $158,000.

Bureau of Field Operations—Personnel as of Dec. 31, 1962

	Washington headquarters staff	Attorneys	Clerical
Professional:			
GS–17	1	1	
GS–15	2	2	
Stenographic, clerical, etc.	3		3
Total	6	3	3

NOTE.—Total annual salaries, including field, $2,189,000; total employees, including field, 283.

Field office employees in the Bureau of Field operations, by grade as of Dec. 31, 1962

	Total field	Washington	New York	Boston	Chicago	Cleveland	Atlanta	Kansas City	New Orleans	San Francisco	Seattle
Attorney, GS–15	9	1	1		1	1	1	1	1	1	1
Attorney, GS–14	24	3	3	1	3	1	3		4	5	1
Attorney, GS–13	20	3	8	1	2			1	1	2	2
Attorney, GS–12	20	2	3	1	3		4	2	1	3	1
Attorney, GS–11	36	8	7	4	4	3	1		6	1	2
Attorney, GS–9	54	4	20	3	11	2	1	1	7	1	4
Attorney, GS–7	15	4	9			1		1			
Stenographic or clerical, GS–7 or below	99	17	26	4	10	4	5	5	10	10	8
Total	277	42	77	14	34	12	15	11	30	23	19

Mr. EVINS. Mr. Williams, you are asking for an increase of five personnel to your staff and an increase of $158,000.

This Bureau is really the eyes and ears of the Commission. I imagine you would need five more people all over the country to conduct your investigations.

Mr. WILLIAMS. Yes.

BUREAU OF INDUSTRY GUIDANCE

Mr. EVINS. We will now take up the Bureau of Industry Guidance. Place in the record pages 100 through 113.

(The pages referred to follow:)

Bureau of Industry Guidance

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	16	$103,000	18	$121,000	2	$18,000
Divisional trade practice conferences and guides	18	177,000	20	208,000	2	31,000
Divisional advisory opinions	6	82,000	11	143,000	5	61,000
Divisional trade regulation rules	7	78,000	13	152,000	6	74,000
Total personal services	47	440,000	62	624,000	15	184,000
Travel		6,000		6,000		
Total	47	446,000	62	630,000	15	184,000

BUREAU OF INDUSTRY GUIDANCE

On June 1, 1962, the Commission assigned to the Bureau of Industry Guidance two new and important functions: (1) The administration of the new trade regulation rule procedure, and (2) the preparation of advisory opinions which are binding on the Commission. These new Bureau responsibilities are in addition to those of conducting the programs for the promulgation and administration of trade practice conference rules and guides, which programs are to be continued in full effect. Administratively, two new Divisions were created—the Division of Trade Regulation Rules and the Division of Advisory Opinions. The guides function was made a responsibility of the Division of Trade Practice Conferences, the name of which Division was changed to the Division of Trade Practice Conferences and Guides.

OFFICE OF THE DIRECTOR

The Office of the Director has general supervision over the work of the three Divisions. It also supervises the work of the Bureau's central record room and stenographic pool. To serve the expanded legal staff requested for the Bureau two additional GS–4 stenographers at a cost of $8,000 and $10,000 for increased pay costs will be necessary.

DIVISION OF TRADE REGULATION RULES

In establishing the trade regulation rule procedure on June 1, 1962, the Commission initiated a new program bringing to bear its voluntary and mandatory procedures in effective combination in an effort to obtain maximum law observance on an industrywide basis; voluntary in that industries may apply for and take part in the rulemaking proceedings, and mandatory in the sense that such rules may be used in any adversary proceedings initiated against recalcitrant members of the industry involving the unlawful practices proscribed by the rules.

Trade regulation rules are basically different from trade practice conference rules as to scope, purpose, and procedure. Trade practice rules apply settled

principles of law to the practices of a given industry and are designed to promote voluntary compliance with the law. They are advisory only. Trade regulation rules, on the other hand, while also informative as to legal requirements, represent conclusions of the Commission as to the illegality of particular practices, the validity of which rules may not thereafter be challenged. The procedure for establishing trade regulation rules as set forth in sections 1.61 through 1.71 of the Rules of Practice also differs materially from the procedure for promulgating trade practice rules.

Purpose of trade regulation rules

Where an unlawful practice besets an industry those who disregard the law, profit at the expense of scrupulous competitors. Many industry members become involved in formal proceedings and are placed under orders to cease and desist certain practices while their competitors, at least for some period of time, continue to engage in the unlawful practice. These businessmen placed under orders complain that they are treated unfairly and insist that their competitors be similarly restrained. A trade regulation rule is a major step in correcting such inequities.

When notice is published of a proposed rulemaking proceeding respecting a particular practice or practices, businessmen know that a few are not being singled out under the mandatory processes. After they are given a fair chance to present their views in the course of the proceedings they will understand their obligations under the law and that the Commission will rely upon the rule in any adversary proceeding. The rule, therefore, acts as a strong deterrent to law violations.

Trade regulation rules serve the further purpose of saving time and the expenditure of funds in litigated proceedings against unlawful practices. Where the rules prohibit an unlawful practice and subsequently formal proceedings are instituted, the Commission staff presents proof that the company has engaged in the banned practice and is not required to present evidence that the practice itself was violative of the law. This leaves to the respondent the defense of showing that it did not engage in the practice or that the rule should be applied in the particular case. Respondent cannot challenge the validity of the rule as such. The rule would save time and expense on the part of both the investigative and trial staffs. In many situations where preliminary investigation reveals that a practice is in general use in the industry it is feasible to stop the investigation and treat the matter on an industrywide basis under trade regulation rule proceedings.

Trade regulation rule proceedings may be used in any area and encompass any practice violative of the Clayton Act or the Federal Trade Commission Act, including corporate mergers, price discriminations, inducing or receiving discriminations in price, discriminations in the furnishing of services and facilities, discriminatory payments for services or facilities and other restraints on competition, as well as any and all forms of deception, including false advertising and deceptive labeling.

Pending proceedings

There are now pending in this Division for consideration the following proposed proceedings for trade regulation rules:

Exploding bottles.—This matter involves bottle manufacturers and the bottling industry. The problem here is the establishment of a rule which would require that bottles be of such composition, design, and construction as to reduce the likelihood of explosion under normal conditions of use. This will entail extensive scientific tests and studies in determining standards for the manufacture of safe bottles.

Leakproof batteries.—The practices involve misrepresentation that dry-cell batteries are "leakproof" and "guaranteed leakproof." Industry members are manufacturers, importers and distributors.

Used oil industry.—The matter involved concerns the failure of distributors and rerefiners of used lubricating oil to disclose that the oil was previously used. A study is now being made to determine whether the problem lends itself to corrective action by trade regulation rule proceedings.

Watch industry.—Industry members involved are manufacturers, importers, and distributors of watches. The proposed rule would be designed to eliminate the use of false and fictitious retail price tags and labels on watches.

Sewing machine industry.—Industry members involved are manufacturers, importers, and distributors of sewing machines. An appropriate rule would prevent misrepresentations that sewing machines are "automatic."

Gift wrapping and tyings industry.—The industry involves manufacturers and distributors of gift wrapping paper and materials, including ribbons and tying facilities. The proceeding would have as its purpose the establishment of a rule to eliminate the practice of placing on such products false and deceptive retail prices.

Sleeping bag industry.—The practices involve misrepresentations as to the size of sleeping bags in advertisements and labeling. Industry members are manufacturers and distributors.

Automotive tire industry.—This Division is presently studying the tire industry with the view to initiating trade regulation rule proceedings. The question here concerns misrepresenting the size of automotive tires, misrepresentation as to the manner of compliance with guarantees offered to consumer purchasers, and the failure to disclose the grade or quality of tires.

Room air conditioner industry.—This Division is now making inquiry into the practices of manufacturers and distributors of room air conditioners with special reference to disclosure of the cooling capacity of air conditioners and tolerances in connection with specified ratings or capacities.

Program for fiscal 1964

As before mentioned, this Division is presently working toward the establishment of rules relating to specific practices used in connection with the sale of exploding bottles, automobile tires, "leakproof" batteries, used oil, watches, room air conditioners, sewing machines, gift wrappings, and sleeping bags. The Commission also has under consideration several matters which, it is expected, will be referred to this Division for the initiation of trade regulation rule proceedings. Since the procedures in formulating and establishing trade regulation rules are new and as yet untested, they must be developed and refined to meet the needs of varying circumstances and situations.

Although this Division has been in existence for several months only, it is already abundantly apparent that in order to develop fully its potential for augmenting other Commission procedures the presently assigned attorney personnel must be substantially increased. The work ahead in developing satisfactory procedures and in establishing rules for the subjects now assigned, to say nothing of expected assignments, will demand more man-hours than can be provided by the present staff.

It is anticipated that the workload of this Division will expand as the program progresses. The conditions are such in many industries at this time that consideration should be given to the initiation of trade regulation rules. In many situations some members of an industry are under investigation where in all fairness it would be appropriate to explore the entire matter on an industrywide basis through this procedure. There are other situations where industry members through formal proceedings have been placed under orders to cease and desist while other competing members of the industry may be engaging in the same practices free from such restraints. Trade regulation rule proceedings would provide a rule applicable to all industry members engaged in such practice, thereby eliminating the present inequities.

The time and expense which these proceedings will save the Government and business and the assurance of equitable treatment of all industry members make this program by its very nature one of unlimited potential. As businessmen realize the benefits of the program we can anticipate more applications from industries for the establishment of trade regulation rules.

Increase requested, fiscal 1964

In order to administer this program effectively the Division will require six new attorneys (three GS–14 and three GS–13) at a cost of $68,000, $3,000 for promotions, and $3,000 for increased pay costs, making a total of $74,000 for personal services.

DIVISION OF ADVISORY OPINIONS

In an effort to give the businessman something "more than the menace of legal process," the Commission on June 1, 1962, initiated the practice of rendering advisory opinions. The function of preparing these opinions was made the responsibility of the Division of Advisory Opinions.

The Commission is of the opinion that businessmen who, in good faith, seek the advice and counsel of the Commission in regard to a proposed course of business conduct are entitled to the benefit of the Commission's views. Whenever it is practicable to do so, the Commission will render its advisory opinion in advance of the proposed course of action, subject only to the right to reconsider its advice should such reconsideration be in the public interest. Information submitted, however, will not be used as the basis for a proceeding against the requesting party without prior notice and opportunity afforded for such party to discontinue the course of action pursued in good faith in reliance upon the Commission's advice.

Understandably, the nature and character of requests for advisory opinions involve highly complex questions concerning interpretations of the various statutes administered by the Commission and the applicability thereof to the particular practices proposed to be adopted. Many of the problems presented are matters of first impression, for which there are no Commission or court decisions or previous rulings which can be relied upon as precedents. Because of the complexity and the novelty of the issues involved, it is imperative that the staff be increased to the extent necessary for prompt, efficient, and accurate processing of all requests for advisory opinions.

Experience to date has conclusively demonstrated that time is of the essence in the consideration of requests for advisory opinions. Generally speaking, by the time that a proposed course of action is presented to the Commission for its consideration, weeks and months of planning, discussion, and negotiation have been devoted by businessmen to the formulation of the plan eventually submitted. Most of the essential groundwork for the implementation and the operation of the plan has therefore been laid and the instances are few and far between in which there is not a request for an early expression of views by the Commission in order that the plan or program may be started immediately. Typical examples are the necessity for immediate advance approval (1) in order to meet a printing deadline, (2) to dispose of seasonal goods, (3) to consummate a sales contract, and (4) in the case of requests for premerger clearances, to effect a sale of assets or stock before the prospective purchaser withdraws its offer or loses interest in the proposed transaction.

In the case of premerger requests alone, voluminous and detailed information must be considered by the Commission before an informed determination can be made concerning the legality of the proposed merger or acquisition.

Problems presented to date encompass the entire spectrum of laws administered by the Commission. For example, we have received requests concerning the legality of advertising copy relating to a myriad of products, quantity discounts, exclusive dealing contracts, payment of advertising allowances, the furnishing of services or facilities, premerger clearances, brokerage payments or payments in lieu of brokerage, and questions involving possible restraints of trade under section 5 of the FTC Act.

Based upon the number of requests received during the several months in which this service was offered to the business community, it can reasonably be anticipated that approximately 300 requests for advisory opinions will be received during fiscal 1964.

Increase requested, fiscal 1964

In order to render prompt and accurate advisory opinions an increase of $56,000 is requested to provide two GS–14 and three GS–13 attorneys, $2,000 for promotions and $3,000 for increased pay costs, making a total of $61,000.

DIVISION OF TRADE PRACTICE CONFERENCES AND GUIDES

This Division is responsible for administering the Commission's trade practice conference and guides programs. While combined in a single Division for administrative purposes, the two are conducted as entrely separate functions.

Trade practice conferences

The primary objective of the trade practice conference program is to obtain expeditious industrywide voluntary compliance with laws administered by the Commission. Its work falls in three main categories: (1) The establishment (and revision) of trade practice rules, (2) furnishing advice and guidance concerning the requirements and applicability of rules, and (3) obtaining through continuous administration of the rules the greatest possible degree of voluntary compliance with the provisions thereof.

The rulemaking work of the Division is concerned primarily with the preparation of reports on applications received, the formulation of rules, and revision and amendment of existing rules when necessary. Its rule compliance work entails the establishment and maintenance of a close working liaison with industry members and their trade associations, furnishing rule interpretations and advice to industry members, issuing warnings on courses of business conduct that would contravene rule provisions, conducting discussions on subjects covered by rules, and effecting voluntary discontinuance of practices found to violate rule requirement.

Accomplishments July 1, 1961–December 31, 1962

Work was completed on, and the Commission approved, new rules for seven industries and revised previously promulgated rules for five industries. These industries, having an estimated aggregate annual volume of sales of several billion dollars, are pleasure boat; residential aluminum siding; stationers; optical products; wall coverings; metallic watch band; rebuilt, reconditioned, and other used automotive parts; tobacco distributing; mirror; luggage and related products; wire rope; and kosher foods.

In addition to its rulemaking work, the Division completed action in 913 matters involving compliance with rules and processed 270 matters involving interpretations of rules.

Concurrently with its regular compliance work, the Division completed several special projects having as their objective the elimination of various widespread unfair trade practices, one of which had to do with effecting discontinuance of false and misleading representations by firms engaged in the purchase of precious metals from the public. In all, 329 firms were contacted, with the result that all known violations were corrected.

An industrywide survey of guarantees and guarantee advertising used by manufacturers of water heaters was conducted, as a result of which needed correction was effected on the part of 32 such manufacturers. This project is not as yet completed.

In another project the Division sent letters to all known manufacturers of television antennas to ascertain whether, as had been indicated, they were misrepresenting the prices of their products. As a result of this survey, approximately 40 rule compliance cases were initiated and voluntary compliance obtained in each instance.

Industrywide action was undertaken to require members of the cosmetic and toilet preparations industry to disclose the domestic manufacture, compounding, mixing, or blending of products compounded or otherwise manufactured in this country and sold under a name suggesting foreign origin. This project has not as yet been completed.

As directed, and after considerable study and research, the Division submitted separate reports to the Commission on other special projects relating to upholstery fabrics, and the sale of products produced from mahogany and Philippine mahogany. A special report was also made on the subject of revising the Commission's standard "push money" rule, which rule was subsequently revised by the Commission.

Program for fiscal 1964

It is contemplated that in addition to rules for the wire rope and kosher foods industries which were promulgated in fiscal 1963, trade practice rules will be promulgated during this fiscal year for at least three other new industries, namely, the $7½ billion fresh fruit and vegetable industry, the $2½ billion household furniture industry, and the mail-order insurance industry. In addition it is contemplated that the existing rules for several industries will be revised, including those for the beauty and barber equipment and supplies industry and the uniform industry.

There are presently 168 industries under rules. The additional new rules to be promulgated in fiscal 1963 will bring the total number of industries under rules to 171. These new rules will add considerably to the rule compliance work of the Division, which is already overburdened. With the present staff, except in a few pressing instances such as those hereinbefore mentioned as special projects, the Division has not been in a position to utilize to its full extent the industrywide approach in obtaining law observance. In fact it had all it could do to keep abreast of complaints and inquiries received through the mails.

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Increase requested for 1964

An increase of $18,000 is requested for two attorneys (one GS–13 and one GS–11), $5,000 for promotions and $8,000 for increased pay costs for fiscal year 1964, a total of $31,000.

Guides

Stated briefly, guides are a restatement of the law in layman's language of formal cases previously decided by the Commission and the courts. They are interpretive rules which serve to—

1. Spell out the legal boundaries of trade practices subject to regulation by the Commission;
2. Aid in obtaining a maximum degree of compliance with the law through administration of the guides on an industrywide basis;
3. Prevent consumers from being deceived and competitors from being injured through preventing unfair trade practices from ever being used in the first instance; and
4. Spotlight persistent violations which warrant the application of the Commission's mandatory processes.

Generally speaking, guides may be issued in one of two forms. First, there are guides which apply to specific practices within a particular industry, such as the cigarette and tire advertising guides. Second, guides which apply to business practices common to many industries, such as deceptive pricing, bait advertising, guarantees, and guides for advertising allowances.

Accomplishments July 1, 1961–December 31, 1962

This period proved to be an extremely active one in obtaining compliance and giving interpretations under the various guides. The following statistical summary indicates the accomplishments under the guide program during the period:

Individual complaints disposed of	1,111
Interpretations of the guides	553
Total	1,664
Number of guides distributed upon request	115,727

During the period three new guides were issued, substantial progress was made in the revision or formulation of four additional guides, and the administration of existing guides continued at a high level. The three new guides approved and issued by the Commission were the guides for shoe content labeling and advertising, the guides for advertising fallout shelters, and the guides for advertising shell homes.

The guides for advertising fallout shelters were prepared at the request of and in close cooperation with the Office of Civil Defense of the Department of Defense. Immediately after their issuance on December 5, 1961, there was considerable activity in their administration. Several months later, however, the construction of fallout shelters declined materially with the result that our activity in the administration of these guides since that time has been on a somewhat limited basis.

On April 25, 1962, the Commission adopted guides for advertising shell homes. Because this is a relatively young industry and because its principal market is the low-income group, the Commission took timely action to move against the deceptive practices which some members of this industry were using. Copies of the guides were sent to all known shell home builders in an effort to acquaint them with the requirements of the guides and to ascertain whether their advertising complied therewith. These guides have also elicited interesting responses from industries faced with problems similar to those covered by the principles enunciated in the guides, such as interest rates, guarantees, and bait advertising. Particular attention is invited to the fact that the Federal Housing Administration has distributed copies of these guides to each of its field offices, requesting that they be used in appraising the accuracy of claims made by conventional homebuilders who use the insured loan facilities of that agency. Also of interest is the fact that approximately 7,755 copies have been distributed to interested parties requesting same.

In October 1962 the Commission issued guides for shoe content labeling and advertising. These guides, which provide for informative labeling of shoes were necessary to prevent deception of the public, represent a significant step

in the Commission's program of consumer protection. The guides became operative at the point of manufacture 90 days after the date of publication.

As usual, the guides against deceptive pricing were responsible for the greater volume of compliance and interpretive work, administration of the tire guides, guarantee guides, and the bait advertising guides also required considerable attention and correspondence during fiscal 1962.

The staff of this Division also continued its active administration of the cigarette advertising guides. Through its voluntary administrative procedures a number of claims involving several brands of cigarettes were modified to bring them into compliance with the guides. The staff also made a careful review of its enforcement responsibilities in the light of recent developments relative to the cigarette-health problem. Such developments are being carefully watched in connection with the Division's continued effort to prevent any deception of the public in this important area.

Anticipated guide program for fiscal 1964

This Division had on hand for disposition the following number of matters as of January 1, 1963:

Complaints pending	300
Requests for interpretations	34
Total pending Jan. 1, 1963	334

Perhaps the heaviest workload in fiscal 1964 will come from the issuance of the revised guides against deceptive pricing, which the Commission expects to issue in fiscal 1963. The promulgation and administration of these guides has evoked more interest than any other set of guides issued by the Commission. Perhaps this is due to the fact that savings claims constitute a very persuasive and compelling factor in the mind of the purchasing public. During the time these guides have been in effect, which is approximately 4 years, we estimate that a total of one-half million copies have been distributed to interested parties by the Commission and by private industry which has reproduced copies at its own expense.

The guides for shoe content labeling and advertising are expected to create a heavy volume of compliance work. Because there are approximately 900 shoe manufacturers representing a $2 billion industry, it is anticipated that much of the administration of these new guides will carry over well into fiscal 1964. It can readily be seen that the job of examining the labeling and advertising of 900 shoe manufacturers is one which will involve considerable time and manpower.

Study and consideration is currently being given to the issuance of guides for advertising and marketing of goods of foreign origin. Rather than continuing to bring formal proceedings against individual companies in this area, the Commission hopes to attack the problem on a wholesale basis through its voluntary procedures, thus lessening the necessity for individual case actions.

Substantial progress has been made on the formulation of guides for advertising radiation detection instruments. Being prepared at the request of, and in close cooperation with, the Office of Civil Defense, these guides will represent an effort to protect the public from the purchase of ineffective radiation detection instruments which do not measure up to the standards established by the Office of Civil Defense.

Guides relating to the cooling capacity of room air conditioners have already been drafted in proposed form and will be presented to the Commission for its consideration unless a decision is made to initiate a trade regulation rule proceeding on this subject.

Further clarification and modification of the guarantee guides is needed in order to bring them into harmony with more recent Commission decisions.

Another problem of immediate concern is the practice of selling refined used oil without disclosing its prior use. It is contemplated that industrywide approach to the problem will be utilized in an effort to bring about simultaneous compliance with the Commission's requirements. This is also a possible subject of a trade regulation rule proceeding.

Finally, the Division plans to attack the use of fictitious prices and failure to observe the guarantee guides by a substantial number of members of the mail order catalog industry. There are approximately 1,200 members of this

industry and the objective would be to effect the necessary correction on an industrywide voluntary basis, thus lessening the possibility of competitive inequities and necessity for using the Commission's adjudicatory processes.

Bureau of Industry Guidance—Personnel as of Dec. 31, 1962

	Total	Attorneys	Stenographic and clerical
Professional:			
GS-16	2	2	
GS-15	8	8	
GS-14	6	6	
GS-13	3	3	
GS-12	2	2	
GS-11	1	1	
GS-9	4	4	
Stenographic, clerical, etc	17		17
Total	43	26	17

NOTE.—Total annual salaries, $424,010.

ADVISORY OPINIONS RENDERED BY THE BUREAU OF INDUSTRY GUIDANCE

Mr. EVINS. Formerly some staff member would answer a letter and say, "This is legal and this is illegal," but now the Commission takes it on itself to answer letters?

Mr. DIXON. To render advisory opinions.

Mr. EVINS. How is this working out?

Mr. DIXON. I think it has been accepted more enthusiastically by the business community than anything we have ever done. I hope, as we go along through the years, that we can solve more and more of our problems in this way.

In adopting this rule we said to the business community that where possible and practicable we will, if you will come to us in good faith, render an advisory opinion on proposed courses of action and it will be binding upon the Commission at least until and unless the Commission serves notice on the parties that it has new facts, and then it will afford an opportunity to the parties to come in before further action is taken.

Mr. THOMAS. May I interrupt there? The salvation of this Commission is in this Bureau unless you get an army. You have to do it through cooperation. If you do not, you will have 10,000 employees.

Mr. DIXON. Mr. Chairman, we feel we owe this to the American businessman and I think the American businessman, if he does not seek this advice, is ill put if he says the Commission is harassing him.

Mr. OSTERTAG. Will you give us an example of how this works?

Mr. DIXON. One of the difficult areas is the granting of promotional allowances. The law does not prohibit the granting of promotional allowances but it prohibits the granting of promotional allowances on an unequal basis. Everybody cannot handle the same promotion and the businessman can devise comparable substitutes but at least he must devise a plan that would appear equitable. So we welcome the businessman seeking advice and saying, "This I propose to do. I do not want to do it and then have you sue me." We have gotten requests in this area, sir. I am reminded by Commissioner Elman we had a ques-

tion come from a small casting manufacturer in the Midwest. He did not want to use a system of discounts unless he had clearance. We had quite a problem here but we were able to determine these were engineered things and were not comparable. So we were able to grant this clearance to this man and yet he was proper and correct in coming to us because if he had just done this and we had a complaint, we might have sued this man.

Mr. JONAS. How long does it take you to handle one of these requests for an advisory opinion?

Mr. DIXON. Some of them are difficult and some are not so difficult.

Mr. JONAS. Can anybody handle them except the Commission?

Mr. DIXON. We have a Chief of the Division of Advisory Opinions. This takes a great deal of expertise to do it. We are trying to build this division up.

Mr. EVINS. This is not all done by writing but also by oral conferences?

Mr. DIXON. That is right. There is a great deal of letterwriting and also oral conferences required.

Mr. EVINS. On an average, how long after a man writes in a letter does he get a reply?

Mr. DIXON. Some want it the next day. We have granted about 11 of these things. We have turned down a lot of them. We have granted 11, rendered 27.

Mr. JONAS. How many requests have you had?

Mr. DIXON. 120.

Mr. EVINS. How widespread is this known in the business community?

Mr. DIXON. I have done my best to have it widely known. I have made several speeches and press releases have been issued and there has been a lot of discussion of it.

Mr. OSTERTAG. I notice you anticipate 300 requests next year.

Mr. DIXON. I would be afraid to guess how many we will get next year.

Mr. OSTERTAG. Then, on what basis do you establish that figure?

Mr. DIXON. The worst thing that could happen would be if we got 500 requests and they would say, "When will you get to me?"

Mr. EVINS. You have five members. You write a letter——

Mr. DIXON. By direction of the Commission.

Mr. EVINS. Suppose you have a 3 to 2 opinion. Do you tell the man, "This is a borderline case"?

Mr. DIXON. If any of the dissenters would want to have it noted, we would do that. They have that right. That has not happened yet.

Mr. EVINS. I think our chairman is correct that this is an area that is useful particularly to the small business community.

BUREAU OF ECONOMICS

We will turn to the Bureau of Economics.

Put pages 114 through 120 in the record.

(The pages referred to follow:)

Bureau of Economics

	Allotment, fiscal year 1963		Requested, fiscal year 1964		Increase, fiscal year 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
Office of the Director	42	$239,000	46	$271,000	4	$32,000
Division Economic Evidence	29	262,000	29	281,000	----------	19,000
Division of Economic Reports	16	150,000	24	217,000	8	67,000
Division Financial Statistics	39	249,000	39	271,000	----------	22,000
Total, personal services	126	900,000	138	1,040,000	12	140,000
Travel	----------	5,000	----------	10,000	----------	5,000
Other expenses	----------	3,000	----------	3,000	----------	----------
Total	126	908,000	138	1,053,000	12	145,000

Bureau of Economics

The functions of this Bureau are to give 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.

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, and the Assistant Director.

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 some statistical and clerical assistance to other divisions in the Commission.

Because the demands of the stenographic and statistical units parallel those of the divisions which they service, it is anticipated that for fiscal 1964 an increase of four employees will be required (two GS–5 statistical clerks and two GS–4 typists) at a cost of $17,000, and $15,000 for increased pay costs.

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 section 6 surveys initiated by the legal bureaus and assists with the processing of such surveys.

During fiscal 1962, economists in the Division rendered economic assistance on 86 cases and investigations, 68 of which involved mergers. Twenty-five of these 68 cases and investigations were merger cases where complaint had been issued, while 43 cases were in various stages of investigation. The Division also recorded and assembled the basic available data on 1,360 mergers during fiscal 1962. In addition to economic assistance on mergers, the Division assisted on 4 investigations by the Compliance Division; 12 investigations involving false and deceptive practices; and 7 cases and investigations involving price discriminations or unfair methods of competition.

Further economic assistance on casework was provided to the legal divisions by some economists assigned to the Division of Economic Reports. This was necessary because the relatively small number of economists in the Division of Economic Evidence could not supply even the most urgent demands for assistance by the legal bureaus. During fiscal 1962 about 37 percent ($51,000) of the expenditures of the Division of Economic Reports was devoted to assistance in economic evidence work. Because of the continuing heavy demand for assistance in economic evidence matters, six employees from the Division of Economic Reports have been transferred to the Division of Economic Evidence.

An indication of the demand for economic assistance is shown by the fact that there are presently 90 merger cases and investigations that require economic assistance; 23 of these 90 are in complaint and 67 are under formal investigation. No funds are requested for additional personnel for this Division is fiscal 1964 but the present demands for assistance are such that the Division will be hard pressed to meet its full responsibilities for economic assistance to the legal divisions; however, $19,000 will be necessary to pay the increased pay costs.

DIVISION OF ECONOMIC REPORTS

Because of the demands for economic evidence work during fiscal 1962, about 37 percent of this Division's work was devoted to aiding the Commission's investigative and case work. The economic data and expertise gained as a result of its inquiry into food retailing (published in fiscal 1960) enabled this Division to render valuable assistance in the Commission's three merger cases involving food chains.

The Division of Economic Reports completed all research work on its "Inquiry Into Food Marketing, Part II: Integration and Concentration in the Frozen Fruit and Vegetable Industry." This report has been submitted to the Commission for final approval and will be released to the printer shortly. The Division also continued work on part III of its "Inquiry Into Food Marketing: Integration and Concentration in the Canned Fruit and Vegetable Industry." This phase of the study was not completed during fiscal 1962 because of the pressing demands of other work.

During 1962 the Division initiated preliminary work on several new economic studies which will be continued during fiscal 1963. One of these deals with intercorporate relationships. This study, which was mentioned in last year's budget justification, is being planned in consultation with other Government agencies, including the Department of Justice. The Commission has approved this study and clearance of the questionnaire is now before the Bureau of the Budget.

The Division also initiated a study into the changing structure and organization of the dairy industry. This study, which will be based largely upon information already in the Commission's files, should prove valuable to the Commission and others in developing an adequate understanding of the many complex competitive problems in this industry.

Some preliminary work was done in fiscal 1962 on a study of merger activity since the passage of the Celler-Kefauver amendment to the Clayton Act by the large manufacturing and merchandising corporations. Should this study be given final approval by the Commission, the Division will proceed in fiscal 1963 to collect the necessary data and plan for the preparation of an economic report on this subject. An economic study of the type indicated would be of great assistance to the Commission in screening new mergers and it would give the Congress, the Commission, and the public some insight as to how important mergers have been in promoting the growth of large companies. It would also enable the Commission to make some judgments with respect to changes, if any, in the types of merger activity that have occurred over the period studied.

Finally, the Division has initiated a research program aimed at developing reliable economic information useful in selecting merger and other possible violation of statutes enforced by the Commission. It anticipates that economic studies of particular industries may be conducted without requiring a large number of personnel for each study. As part of this program the Division of Economic Reports has made preliminary studies of several industries, including glass, copper, paper, and polyethylene-polypropylene. By supplementing information already in the Commission's files and available from secondary sources with information from industry, it should be possible to develop a more expeditious and less costly program of economic studies than has been possible in the past.

The Division has underway, at the direction of the Commission, a study of the polyethylene-polypropylene industry. A formal investigation of this industry under section 6(b) of the Federal Trade Commission Act is now in process. The questionnaires have been mailed and the Division expects the data collected on this industry not only to form the basis of an economic report, but to be useful in determining if there have been violations of the Clayton Act and the Federal Trade Commission Act.

To carry on effectively the planned research work of this Division will require additional staff. Since the pressing requirements of casework necessitated the transfer during 1962 of six economists from the Division of Economic Reports to the Division of Economic Evidence, eight additional economists should be added to the Division of Economic Reports. The Division now has 15 professional economists and although the 8 additions to the staff will materially strengthen the Division, this number is still inadequate to make the maximum economic contribution to the Commission's program and policy planning, and is far fewer than were involved in such work during the early decades of the Commission's existence. We believe, however, this number is a realistic estimate in view of the difficulties involved in recruiting qualified research personnel in this area.

An increase of $58,000 is requested for these eight additional economists (two GS–12's, two GS–11's, two GS–9's, and two GS–7's), and $9,000 to cover increased pay costs.

DIVISION OF FINANCIAL STATISTICS

Effective June 1, 1962, the Division of Financial Statistics, formerly in the Office of the Comptroller, was transferred to the Bureau of Economics. The primary function of the Division of Financial Statistics has been to collect and summarize each quarter uniform financial data obtained by a probability sample survey of all enterprises except newspapers, which are classified as manufacturers and are required to file U.S. corporate income tax form 1120. The purpose of the sample survey is to produce an income statement and balance sheet for all manufacturing corporations, classified by industry and asset size.

The Division collects financial data from more than 8,500 nonregistered manufacturing corporations. The Securities and Exchange Commission supplies summarized financial data for all registered manufacturing corporations to the Division, which then combines the data for both the registered and nonregistered corporations and publishes the summaries as a quarterly financial report for manufacturing corporations. These reports, showing profits per dollar of sales and other financial data classified by industry and asset size, have been published quarterly since 1947 and are sold on a subscription basis by the Superintendent of Documents.

The financial reporting program is basically a service function carried on for other Government agencies and for private industry. In addition to Government agencies, there are some 15,000 non-Government subscribers for the quarterly financial report. No additional funds for personnel are requested for this Division for fiscal 1964; however, $22,000 will be necessary to pay the increased pay costs.

In addition to the increases listed for personnel services, $5,000 additional travel funds will be necessary in fiscal 1964 to restore the reduction required in fiscal year 1963 caused by the required absorption of the pay costs.

Expenditures by functional breakdown

	Actual expenditures, fiscal year 1962	Allocated, fiscal year 1963	Total requested, fiscal year 1964	Increases or decreases (–)
Economic reports:				
Food	$89,826	$50,000	$40,000	–$10,000
Polyethylene-propylene	----------	20,000	40,000	20,000
Intercorporate relations	----------	50,000	100,000	50,000
Mergers	----------	20,000	50,000	30,000
Webb Pomerene	----------	20,000	22,000	2,000
New studies	38,976	25,000	25,000	----------
Assistance to other bureaus	312,601	365,000	394,000	29,000
Financial statistics [1]	----------	240,000	262,000	22,000
Other: Supervision	83,645	118,000	120,000	2,000
Total	525,048	908,000	1,053,000	145,000

[1] Effective June 1, 1962, the Division of Financial Statistics, conducting this work, was transferred to the Bureau of Economics.

Bureau of Economics—Personnel as of Dec. 31, 1962

	Total	Economists	Statisticians and accountants	Stenographic and clerical
Professional:				
GS–16	2	2		
GS–15	2	2		
GS–14	7	5	2	
GS–13	13	9	4	
GS–12	8	6	2	
GS–11	3	3		
GS–9	10	5	5	
GS–8	1		1	
GS–7	15	4	11	
Stenographic, clerical, etc	61			61
Total	122	36	25	61

NOTE.—Total annual salaries, $906,180.

Mr. EVINS. You are asking for an increase of 12 on the staff of the Bureau of Economics.

COST OF PROPOSED CORPORATE SURVEY

Mr. DIXON. May I call your attention to page 119. On page 119 you will note of the total amount of increase being asked, $50,000 is being requested for this intercorporate relations matter that we have discussed here. I want to make that clear to you so that you can determine there is only $50,000 of that amount of money for that.

Mr. EVINS. The other funds are for your other statistics and reports?

Mr. DIXON. Yes.

Mr. JONAS. Will the gentleman yield?

Mr. EVINS. Mr. Jonas.

Mr. JONAS. You are spending about 10 percent of your money on this bureau, is that right?

Mr. DIXON. A little short of 10 percent; yes, sir.

DUPLICATION OF ECONOMICS ACTIVITIES

Mr. JONAS. How many agencies of the Government are engaged in duplicating these activities?

Mr. DIXON. I do not know exactly how many economic agencies there are in the Government, but I do not know of any that duplicates our activities.

Mr. JONAS. Does not the Department of Commerce do what you do?

Mr. DIXON. No, sir, they do not.

Mr. JONAS. They have a bureau in the Department that I believe is engaged in identical work.

Mr. DIXON. A great bulk of our work is in the direction of the prosecution or building of so-called antitrust cases. A great deal of our efforts are in the antimerger cases. We cannot find, in any other agency, the type of information it is necessary to have. That is why we had to go to the Bureau of the Budget to get this clearance.

Mr. JONAS. What is the difference between your questionnaire and that of the Department of Commerce?

Mr. DIXON. The Department of Commerce is not interested in the same information necessary for us to have.

Mr. JONAS. What about the Bureau of Census?

Mr. DIXON. The Bureau of the Census, in the business census made every 4 years, would obtain a lot of information we could use. We can find the national universe in their reports. But we cannot whittle it out. We are driven here to a definitive type of thing. They go to the fifth decimal point in the census. We will go as low as seventh.

Mr. JONAS. Is that necessary?

Mr. DIXON. It is absolutely necessary. Say the paper industry can make 100 products and they acquire a company that only makes one of the hundred, they will keep their statistics in a package. You have to have a measure of this line and of this company.

Mr. JONAS. Instead of harassing the business community to death by a multitude of questionnaires, why do you not get together with Census and compile the questions to be asked and ask them all at one time? You would be surprised at the complaints I get from businessmen being harassed for statistics.

Mr. DIXON. May I remind you that in the St. Regis case we attempted, and we asked, by our demand process, for the furnishing to us of a copy of the report sent to the Census from parties. We ran into resistance. We went all the way to the Supreme Court on that question. We got to the Supreme Court with the Bureau of the Budget and the Solicitor General against us, saying this would destroy the gathering of this information. The Supreme Court ruled in favor of the Federal Trade Commission then it took Congress exactly 2 months to pass a law putting it back in the confidential status. We cannot get it.

OPERATING EXPENSES

Mr. EVINS. We will take up Operating expenses, and place pages 121 through 124 in the record.

(The pages referred to follow:)

Operating expenses

	Allotment fiscal year 1963	Requested, fiscal year 1964	Increases, fiscal year 1964
Travel	$601,000	$679,000	$78,000
Transportation of things	22,000	22,000	
Communication services	146,500	162,000	15,500
Rents and utility services	100,000	125,000	25,000
Printing and reproduction	100,000	100,000	
Other contractual services	226,000	241,000	15,000
Supplies and materials	140,000	170,000	30,000
Equipment	65,000	80,000	15,000
Grants, subsidies, and contributions	604,000	684,000	80,000
Taxes and assessments	9,000	9,000	
Total	2,013,500	2,272,000	258,500

There are listed above increases for operating expenses including those charged to operating programs. These increases are based upon estimated requirements for Commission operations for the fiscal year 1964 at the levels set forth in the detailed justification.

TRAVEL

Funds in the amount of $679,000 are requested for travel during fiscal year 1964. This represents an increase of $78,000 over funds available for this purpose in fiscal year 1963 including $50,000 reduced from the 1963 allocation as a part of the required absorption of the 1963 pay raise cost. The increases to the various bureaus are as follows: Office of General Counsel, $1,000; hearing examiners, $8,000; Bureau of Restraint of Trade, $25,000; Bureau of Deceptive Practices, $18,000; Bureau of Textiles and Furs, $16,000; Bureau of Field Operations, $5,000; and Bureau of Economics, $5,000. Details of the travel justifications will be found in the bureau estimates.

TRANSPORTATION OF THINGS

Funds in the amount of $22,000 are requested for this item in 1964. This represents no increase over the allocation for 1963.

COMMUNICATION SERVICES

Funds in the amount of $162,000 are requested for communication services which represents an increase of $15,500 over the allocation for 1963. This represents the additional cost of telephone, telegraph, and postal services which will be required in 1964.

RENTS AND UTILITY SERVICES

Funds in the amount of $125,000 are requested for fiscal year 1964, which represents an increase of $25,000 over the allocation for 1963. Of this increase $5,000 will be required to pay for additional space needed as a result of staff increases; and the remaining $20,000 will be required to pay the additional cost of IBM, Xerox machine rentals and rental of motor pool automobiles in Washington. There is set forth below a summary itemizing the estimated increases in rental costs for the fiscal year 1964.

Commission car—motor pool	$2,000
IBM machine rental	15,000
Haloid Copyflo and Xerox equipment	3,000
Field office rental (to GSA)	5,000
Total	25,000

PRINTING AND REPRODUCTION

Funds in the amount of $100,000 are requested for the printing of the Commission's Volume of Decisions, Statutes, Court Briefs and miscellaneous administrative printing. This represents no increase over the allocation for 1963.

OTHER CONTRACTUAL SERVICES

This account includes all contractual services not otherwise classified. The items included under "other contractual services" are listed on the following page:

	Allotment, fiscal year 1963	Requested, fiscal year 1964	Increases, fiscal year 1964
Building repairs and alterations	$25,500	$25,500	
Stenographic reporting services	16,500	16,500	
Corporate statistics (BOASI)	3,000	3,000	
First-aid services (New York and Kansas City offices)	1,500	1,500	
Witness fees:			
Litigation	8,000	8,000	
Medical witnesses	4,000	4,000	
Purchase of exhibits and testing	80,000	87,000	$7,000
Employee insurance	30,500	33,500	3,000
Employee health program	57,000	62,000	5,000
Total	226,000	241,000	15,000

Details concerning the requested increase of $7,000 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 $170,000 are requested for supplies and materials representing an increase of $30,000 over the allocation for 1963. This is the estimated increased cost based upon the new employees requested.

Included in this report 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 1963.

EQUIPMENT

Funds in the amount of $80,000 are requested for new equipment in the fiscal year 1964. This represents an increase of $15,000 over the allocation for 1963. The $15,000 consists of the following items:

12 typewriters	$5,300
4 calculators	3,400
14 dictaphones	6,300
Total	15,000

The above equipment estimates are extremely conservative and are dependent on securing a large amount of excess property from other Government sources.

The calculators and adding machines represent a modest program of replacement of obsolete machines over 20 years old.

GRANTS, SUBSIDIES, AND CONTRIBUTIONS

Funds in the amount of $684,000 are requested for the agency's share of employee retirement costs during the fiscal year 1964. This represents an increase of $80,000 which is based upon the increase requested for personal services plus the additional amount required for the pay raise cost in 1964.

TAXES AND ASSESSMENTS

Finds in the amount of $9,000 will be required to pay the Commission's portion of FICA taxes. This represents no increase over funds allocated in 1963.

Mr. EVINS. "Travel" is up $78,000; "Transportation of things," there is no increase; "Communication services" has an increase of $15,500; "Rents and utility services," you have an increase of $25,000; there is no increase in "Printing and reproduction."

You have an increase of $80,000 for "Grants, subsidies, and contributions." What is that?

Mr. GLENDENING. Civil service retirement contributions.

Mr. EVINS. Mr. Chairman, I want to commend you and your staff for a very fine presentation. I think it was an excellent hearing.

Mr. THOMAS. I have one more question.

PRINTING AND REPRODUCTION

You have a $100,000 item for "Printing and reproduction." How many pamphlets are you printing and producing every year outside of your annual report, and what does your annual report cost? We find more and more publications that take up more and more storage space. About half of it is probably wasted.

Mr. GLENDENING. Mr. Chairman, that $100,000 is the cost of the printing of the Federal Trade Commission's decisions, its briefs, its

appellate records, and everything that we pay for being printed at the Government Printing Office or through the direction of the courts.

Mr. THOMAS. Break down your $100,000.

Mr. GLENDENING. Last year our briefs and the court printing ran $58,000. We have approximately $70,000 in this year for that work. The Commission's decisions and the Commission's annual report, plus a couple thousand dollars for standard forms and other items we buy from the Government Printing Office, will amount to $30,000. That is the $100,000. One brief alone we estimate will cost $50,000.

Mr. THOMAS. What is the cost of the Commission's decisions?

Mr. GLENDENING. It was $32,000 last year and it will be not less this year.

Mr. THOMAS. Are there any sales of the Commission's decisions by the Government Printing Office? What do they sell for?

Mr. GLENDENING. Very low. It depends on the size of the volume.

The Superintendent of Documents charges from $3 to $7 a volume for it.

Mr. THOMAS. Any further questions?

Thank you very much, gentlemen.

WEDNESDAY, JANUARY 23, 1963.

U.S. CIVIL SERVICE COMMISSION

WITNESSES

JOHN W. MACY, JR., CHAIRMAN
FREDERICK J. LAWTON, COMMISSIONER
ROBERT E. HAMPTON, COMMISSIONER
WARREN B. IRONS, EXECUTIVE DIRECTOR
ANDREW E. RUDDOCK, DIRECTOR, BUREAU OF RETIREMENT AND INSURANCE
DAVID F. WILLIAMS, DIRECTOR, BUREAU OF MANAGEMENT SERVICES
W. B. UHLENHOP, CHIEF, BUDGET AND FINANCE DIVISION
J. A. HAMILL, CHIEF, BUDGET SECTION

Mr. THOMAS. Gentlemen, the committee will please come to order.

We have with us this morning the Civil Service Commission. We always welcome this group. We feel very close to you. We have with us the very able and distinguished Chairman, Mr. John W. Macy, Jr.; Commissioner Frederick J. Lawton, well and favorably known to the committee; Commissioner Robert E. Hampton, the new Commissioner; Mr. Warren B. Irons, the Executive Director, certainly one of the mainstays of the Commission, most affectionately regarded; Mr. Andrew E. Ruddock, Director of the Bureau of Retirement and Insurance; David F. Williams, Director, Bureau of Management Services; W. B. Uhlenhop, Chief, Budget and Finance Division, an oldtimer and highly regarded; and J. A. Hamill, Chief of the Budget Section, also an oldtimer.

Gentlemen, you are all welcome. We are delighted to have you. Where are your other bureau heads?

Mr. MACY. They are not with us. The other bureau heads are Donald Harvey, Director of the Bureau of Recruiting and Examining; O. Glenn Stahl, Director of the Bureau of Program and Standards; Kimbell Johnson, Director of the Bureau of Personnel Investigations; and Seymour Berlin, Director of the Bureau of Inspections.

Mr. THOMAS. We would like to do business with those distinguished gentlemen. Why did you not bring them along?

Mr. MACY. We did not want to fill your room to overflowing.

Mr. THOMAS. There are vacant seats. We get lost in here without 20 or 30.

Mr. Chairman, have you or any of your fellow Commissioners, Mr. Irons, or any of you a statement for us? We would be delighted to listen to it. You might tell us something about your many accomplishments during the year and your hopes and aspirations for the future. You might advise us, on or off the record, when you hope to get this budget down.

GENERAL STATEMENT

Mr. MACY. Mr. Chairman and members of the committee, I have a brief statement for the committee.

It is a pleasure for us to meet with you again to discuss the program goals and financial requirements of the Civil Service Commission.

A year ago I indicated to you that the Commission was in the process of making several significant changes in its organization. Among these were the closing of our regional office at Cincinnati, Ohio, the establishment of area centers for the processing of national agency check and inquiry investigations, and the combining of the recruiting, examining, and inspection functions in our regional offices. During 1962 we proceeded to complete these reorganizations and I am glad to be able to report, that they are working effectively and efficiently. The savings realized in operations and administrative costs have enabled the Commission to assume new responsibilities and increased workloads without an increase in appropriations. These economies are reflected in reduced unit costs in fiscal years 1963 and 1964 in the budget document before you.

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

The President requested all agencies, in the preparation of the 1964 budget estimates, to absorb as much of the increased costs resulting from the Federal Salary Reform Act of 1962, Public Law 87–793, as possible in both fiscal years 1963 and 1964. In accordance with this policy, the Commission expects to absorb in 1963, through increased efficiencies in all programs, $372,000 of these increased costs, and $366,000 in fiscal year 1964 through a continuation of these economies. The cost of Public Law 87–793 to the Commission's salaries and expenses appropriation in 1963 will total $966,000, including salaries and related costs, postage costs, and $100,000 to compute the increases in

annuities and benefits under the civil service retirement system as provided by the act. The Commission will absorb 38½ percent of this cost and request a supplemental appropriation for the balance.

The budget request for fiscal year 1964 for salaries and expenses is $22,180,000, an increase of $237,000 over the amount programed for the current fiscal year which includes a supplemental request for increased pay. This increase is entirely the result of the higher pay scales to be effective during the latter part of fiscal year 1964. At the 1962 salary level, without regard to Public Law 87–793, the amount requested for 1964 is $400,000 less than the 1963 appropriation.

Through greater efficiency of operation, the Commission expects to carry out its responsibilities and maintain its workloads on a current basis in fiscal year 1964 with 48 fewer positions than in 1963, and without any decrease in the level or quality of services to the agencies and the public.

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. However, since it is imperative to the national interest that the number of U.S. citizens employed by the various international organizations be commensurate to other factors involved, the prompt investigation of these cases is of vital importance.

During the past year the Commission has experienced rather serious difficulty in this program due to a lack of funds. A total of 136 requests for investigation received during the latter part of fiscal year 1962 had to be held over from 6 weeks to 3 months until the 1963 appropriation became available. This fact together with an increase in receipts in the current fiscal year and the reduction of $82,000 sustained in the 1963 budget request, require that a supplemental appropriation of $200,000 be requested for fiscal year 1963.

RESULTS OF INVESTIGATIONS

Mr. Thomas. Were any of the people involved in those 136 requests held over for 60 to 90 days put on the United Nations payroll until your investigation was completed, do you know?

Mr. Macy. To my knowledge, none of them were placed on the roll until the investigation was completed.

Mr. Thomas. We think this investigative work for those people is important and ought to be done, but in our investigation of the expenditure of these funds through the years, I think the record stands now unchallenged that the persons who have been fired from the United Nations by virtue of your investigation to date have been one.

Mr. Macy. That is, one employee was dismissed because of the information on loyalty grounds. The United Nations and the other international agencies use the information provided by the investigation in making suitability judgments. In many instances they deter-

mine not to select for that particular reason. This means that we are providing additional information.

Mr. THOMAS. Am I correct that only one has been dismissed?

Mr. MACY. Only one in the last 5 years. Prior to 1957, I believe there were five additional cases where there was removal.

Mr. IRONS. We have had one, as a matter of fact, in the last 5 years actually removed from the rolls as a result of the findings of the investigation.

Mr. THOMAS. How does that stack up on a percentage basis with the results of the investigations of our own people for our own governmental agencies?

Mr. IRONS. I do not think we have had to fire anybody from the Federal service for loyalty reasons.

Mr. THOMAS. Fire or fail to put on the payroll. You are supposed to investigate them before they go on the payroll. That is the purpose.

Mr. IRONS. That is right. I am trying to see if I have any figures here on how many applicants were not hired as a result of the investigation.

Mr. WILLIAMS. That information is not available.

Mr. EVINS. It looks as if your investigations are for naught. You make an investigation and do not know the end result.

Mr. MACY. The information is given to the international agency, and it is then their decision as to whether they hire or not. So, as you say, we do not know exactly what judgments are made based on the information.

Mr. THOMAS. Would it not be to the advantage of the investigating agency—in this particular case, the Civil Service Commission—to follow it up as a matter of information? Certainly our Ambassador and our responsible people there, including administrative officers, would furnish that information to you, would they not? It certainly would not be secret, would it, if you do the investigating work?

Mr. MACY. The information could be secured.

Mr. THOMAS. We understand you are purely a service agency, and that is all; but, after all, the taxpayers of the United States are entitled to a little bit more information than they get as to the results of it. There is no criticism of your agency. You do your job and do it expeditiously. We have every reason to believe that you have done well. We have no proof to the contrary. Still, at the same time, what is the net result of the expenditure of the money?

Mr. MACY. In our judgment, this does constitute a very substantial expenditure of funds as measured by the specific results. We are in the process of reviewing this program with the State Department at the present time. This review may well result in some revision.

Mr. THOMAS. Next year, let us have some information which can be published. You can get it. You are not prying into any information in the State Department or the United Nations that you are not entitled to. You made the investigation, and certainly you are entitled to more information than you have.

Mr. MACY. Mr. Chairman, I would believe this is an expenditure which is directly related to the U.S. contribution to international agencies, and should be viewed as such.

Mr. THOMAS. Excuse the interruption. Proceed.
Mr. MACY. I appreciate your underlining the point.

PROGRAM FOR 1964

The budget request for fiscal year 1964 is $670,000, an increase of $40,000 over the amount required for this fiscal year including the supplemental request. Excluding increases brought about by Public Law 87–793, the requirements for 1964 are $608,000. The budget request is based on information received from the Department of State concerning the number of new positions expected to be filled by international organizations in fiscal year 1964.

We are advised that the 1964 budget for the United Nations is expected to be increased by $22 million and the budgets of many international organizations will also be increased appreciably. A total of 1,176 new positions are expected to be created in the United Nations and the major international organizations. At the present time U.S. citizens are employed in 27 percent of United Nations positions and the overall percentage of U.S. citizens employed in international organizations is 17 percent. If the United States is to maintain these percentages, approximately 245 Americans will be placed in new positions next year. The increase of 300 investigations estimated for fiscal year 1964 is, I believe, conservative in the light of these facts.

PROMPT PROCESSING OF INVESTIGATIONS

As I have indicated, the prompt processing of these investigations is of vital importance to this whole program. There is no question but that delays in investigations in the past have reduced the number of U.S. citizens employed by the international organizations. Quite naturally, when delays occur, or appear likely to occur, these organizations tend to employ other nationals who are more readily available. Also, many of our most qualified citizens are reluctant to apply when they learn that several months may elapse before they can report for duty, even after being selected.

Mr. THOMAS. Can you really substantiate that statement? After all, the hiring and the firing is not up to our own State Department, is it?

Mr. MACY. No; but the view in the State Department is that because of the amount of time involved in processing the investigations, the international organizations will frequently consider other nationals for vacancies in international organizations, rather than wait the period of time that is necessary to have the report with respect to the American candidate.

Mr. THOMAS. The report is not binding on the international organization, is it?

Mr. MACY. No; but the understanding has been, since this program went into effect in 1953 under Executive Order 10422, that the Secretary General of the United Nations and the heads of the other international agencies would be guided by the information produced in these investigations on American candidates for positions. So, they

have awaited the receipt of these reports before making final employment decisions.

PERCENT OF U.N. JOBS OCCUPIED BY U.S. CITIZENS

Mr. OSTERTAG. These investigations would be applicable only to U.S. citizens, is that correct?

Mr. MACY. That is correct, sir.

Mr. OSTERTAG. And too, these employees constitute a percentage of the total number employed by the United Nations. Therefore, the purpose of the investigation does not completely cover the whole operation of the United Nations.

Mr. MACY. No. The investigations cover only U.S. citizens. As I have indicated, Americans are in roughly 17 percent of the positions in the international organizations.

Mr. EVINS. Have you any information as to why the United States, which provides the greater proportion of the funds for the United Nations, which pays the lion's share and has voted funds to refinance them when they are in difficulty, which carries the burden of the financial backing of the U.N., has only 17 percent of the employees in the U.N.?

Mr. MACY. I believe the delay in this program is one of the contributing causes. The answer to your question in policy terms, however, would have to come from the Secretary of State. This review that I referred to a moment ago is aimed at examining the existing pactices of our Government with respect to the number of Americans in international organizations. The same concern that you express has been expressed within the executive branch and is under review.

Mr. JONAS. You could establish that beyond speculation by checking into the situation that obtained before this Executive order went into effect. Did we have a higher percentage of employees in international organizations in 1950, for example?

Mr. MACY. This could be done, but the situation has changed so dramatically since that time that I do not think the comparison would be too clear.

Mr. JONAS. Even if we did not have this timelag, I do not think we had a higher percentage of employees then than we have now.

Mr. THOMAS. I think you put your finger on it, Mr. Jonas. The more we see of this program, the less value I would put on it. If we controlled the hiring and the firing, it would be something else, but we do not. It merely begs the question to say you pay 40 percent of the total cost or approximately that figure, and have about 17 percent of the personnel and hope to step it up to 27 percent. You also raise another very serious question. If we are to dominate the personnel, the charge might be hurled at us that it is not a United Nations operation, even though we are paying more than our pro rata part. Some of our unfriendly nations may object to that.

Mr. MACY. I think it can be said that we do not have our fair share of the positions in these organizations.

Mr. JONAS. You said a minute ago that in the last 5 years only one person had been rejected.

Mr. MACY. Had been removed.

Mr. JONAS. Do you have any information or statistics which would indicate how many U.S. citizens have been employed by international organizations despite derogatory information in your reports?

Mr. MACY. No, sir; I do not have that information.

Mr. JONAS. Would it be fair to speculate that you have cleared everybody who has applied?

Mr. MACY. We have sent advisory opinions with respect to the individuals on whom we or the FBI have conducted investigations indicating the derogatory information that is present. Those are turned over to the State Department, and the State Department in turn turns them over to the international agency. We do not have a report back.

Mr. JONAS. Can you tell us why you do not get a report to indicate whether your adverse information has been accepted as fact or whether the international organization has acted contrary to the information that you gave them?

Mr. MACY. It is my impression that where the Commission has presented adverse information, the candidate concerned has not been employed by the international agency. But we do not have verification of that. This is a statement that has been made to me by high level U.S. citizens in the international agencies.

Mr. RHODES. Actually is there not agreement between the United States and the United Nations that no American national will be employed unless the American national has received an OK from our State Department?

Mr. MACY. Yes, that is the general understanding that exists.

Mr. RHODES. So, actually no name goes forward to the international organization unless the State Department has OK'd it; is that not correct?

Mr. IRONS. The Secretary General of the U.N., as I understand it, retains his authority to hire or to fire whomever, in his judgment, should be hired or fired. There is some form of general agreement with the Department of State to accept advisory opinions from the Department of State. Whether they are accepted in whole or in part, we have no information in the Civil Service Commission. We are paid just to make an investigation, and we do not know the final result.

I would like to read some figures into the record which may put this in perspective in view of some of the questions which have been asked as to the volume. Since the beginning of this program in 1953 through January 12 of this year, we have actually received for investigation 12,197 cases. Of that, we have found no derogatory information of any kind in 9,462 cases. We have found some form of derogatory information—it might be a question of loyalty, it might be a question of excessive drinking, it might be a question of perversion, and so on—totaling 2,390. We know in addition there were 322 cases that were discontinued while we had them under investigation. For some reason or other that we know nothing about, the international organization and the candidate discontinued negotiation. That adds up to 12,174, which is just 23 less than the total number we processed, and that 23 we have under investigation now.

So, any way you look at it, the vast majority of the candidates come out with a good, clean bill of health.

Of the 2,390 in which we provided them with some form of derogatory information, we do not know how many they hired and how many they did not hire.

Mr. JONAS. We would pretty nearly have to have that information in order to make an evaluation.

Mr. THOMAS. Does that check with your table on page 119, Mr. Chairman?

Mr. IRONS. This is as of January 12, 1963.

Mr. THOMAS. You gave figures covering a period of 5 years.

Mr. MACY. Ten years. The figures Mr. Irons cited were for the total period.

Mr. THOMAS. I thought you said 5 years. I beg your pardon.

Mr. MACY. This is for the entire program.

INVESTIGATION CASELOAD ON U.S. CITIZENS

Mr. THOMAS. Gentlemen, turn to page 119, and you can check the figures which Mr. Irons gave you.

Mr. MACY. The table on page 119 covers 3 years—the 1962 actual, 1963 program, and the projections for 1964.

Mr. THOMAS. You did not have a shortage of funds in 1962, and for all practical purposes you had the same number of cases. Why do you have this shortage?

Mr. MACY. We were able to handle 899 cases with the funds we had in 1962. We carried over 136 cases.

Mr. THOMAS. But you did not carry over any in 1962 and 1963 which you are talking about now. Your carryover is from 1963 to 1964, is it not?

Mr. MACY. No. The carryover is from 1962 to 1963, because we had inadequate funds in 1962 to meet the entire workload.

Mr. THOMAS. What was your workload in 1960 and 1961? Your table shows it only for 1962.

Mr. MACY. That is right.

Mr. THOMAS. What does your workload show for 1960 and 1961?

Mr. MACY. The workload for 1960 was 772 and for 1961 it was 987.

Mr. THOMAS. I do not recall that in the hearings last year—the members can refresh my memory—anything was said about a stepped-up workload or any appreciable step-up of the workload in 1960, 1961, or 1962.

Mr. MACY. Yes, I believe in our statement at this time last year we asked for more.

PRIOR APPROPRIATIONS FOR INVESTIGATION OF U.S. CITIZENS

Mr. THOMAS. What was your budget estimate for 1962 and 1963, and what were the funds appropriated? Let us turn to the subcommittee print. Do you have your report for 1963? For 1960 and 1961, what was the budget estimate and what was the appropriated fund?

The CLERK. For 1960, the estimate was $412,000; the appropriation, $400,000.

Mr. THOMAS. What about 1961?

The CLERK. For 1961, the estimate was $467,000; the appropriation, $400,000. There was a supplemental request of $67,000, and in the third supplemental they got $62,000.

Mr. THOMAS. You got almost your entire budget estimate in 1961.

The CLERK. In 1962, the figures are $438,000 requested and $430,000 appropriated.

Mr. THOMAS. You got almost your entire budget estimate for 1960, 1961, and 1962. Where is the hiatus, gentlemen?

Mr. MACY. The receipts must have been greater than our estimate, then.

Mr. THOMAS. Again, you are nothing but a service agency, and your estimates are based upon theirs. In truth and in fact, they are not your estimates. They are theirs.

Mr. MACY. They are the estimates of the State Department. We receive an annual letter from the State Department indicating the number of cases they anticipate. What we have included in the budget request for 1964 is the amount necessary to cover what they consider to be the volume of cases coming in that year.

Mr. THOMAS. Excuse us. We got the record straight at least on the appropriations for 1960, 1961, and 1962, that they were just about on the button. If there was any reduction, it would be very slight. You go ahead, Mr. Chairman.

RESULTS OF INVESTIGATIONS

Mr. JONAS. Mr. Chairman, I do not see how we can do any really effective evaluating of the worth of this program unless we get some information from the State Department and the Commission indicating what the results of this program have been, whether these reports are being ignored, or whether some attention is being paid to them.

Mr. THOMAS. I believe Mr. Macy, following your suggestion and the suggestions of the other members of the committee, we will go back to the State Department, certainly, for the next budget, if not this one, and try to get some additional information. It is not secret. You are not asking for anything illegal. You are the workhorse for them. Certainly they ought to be able to give you whatever information you desire. There is nothing private about it.

Mr. MACY. Mr. Chairman, in response to the request, may I file a supplementary statement in response to the questions you have raised here?

Mr. THOMAS. We shall be glad for you to do that.

(The information furnished follows:)

INVESTIGATION OF U.S. CITIZENS FOR EMPLOYMENT BY INTERNATIONAL ORGANIZATIONS

Pursuant to Executive Order 10422 of January 9, 1953, as amended, the Civil Service Commission conducts investigations of all U.S. citizens being considered for employment by international organizations for a period exceeding 90 days. Whenever any question involving loyalty arises, the case is turned over to the Federal Bureau of Investigation for a full field loyalty investigation.

Since 1953, approximately 12,000 investigations have been completed. In 31 of these cases a decision was made that reasonable doubt existed as to the loyalty of the person to the Government of the United States, and the international

organizations concerned were given adverse opinions. Subsequently 7 of these cases were reopened and the initial decision reversed on appeal, leaving 24 cases in which final adverse decisions were made.

Of the 24 adverse cases, 5 involved applicants who are denied employment, and 19 were cases of personnel employed by international organizations at the outset of the program. Of the 19 cases, 11 persons have been terminated while 8 are still employed. In the latter eight cases, the international organizations concerned have decided to retain the personnel in spite of the adverse U.S. recommendation.

The investigations conducted are effective in deterring undesirable persons from applying for positions in international organizations. In addition, information concerning general suitability for employment is turned over to the organization concerned. The international organizations generally require a probationary period of service, and it may be assumed that some number of applicants are rejected on suitability grounds. The Commission receives no information at the present time concerning the disposition of such cases. In view of the interest expressed by the committee, steps will be taken to secure such information.

Mr. THOMAS. You may proceed.

Mr. MACY. To conclude the statement on this particular appropriation: The United States contributes $250 million to the financing of some 51 multilateral international organizations (about 40 percent of the total cost). With this kind of contribution, the United States should be adequately represented on the staffs of these organizations and not be denied representation because of delays in loyalty clearances due to lack of funds. I strongly urge this committee to recommend the full amount of this request.

ANNUITIES UNDER SPECIAL ACTS

The requirements for this item decrease each year due to drops for death from the annuity rolls. The budget request of $1,880,000 for 1964 reflects this decrease and provides for the continuation of annuities authorized.

TOTAL AGENCY JOBS

Mr. THOMAS. I think it would be well to detail for the record right here what activities are included in your big, overall main appropriation of "Salaries and expenses." To be exact, you have three big activities that are not covered in here and which are separately appropriated for in the form of a limitation. Is that correct?

Mr. MACY. That is correct.

Mr. THOMAS. When you say this big appropriation is $22 million plus, that does not cover the entire story as to your financial needs.

Mr. MACY. No, indeed.

Mr. THOMAS. We were not able to figure out how many employees are not covered in the salaries and expenses appropriation. Can you put your finger on that number quickly? We were not able to find that in your justifications.

Mr. MACY. We have a breakdown, Mr. Chairman, which shows the number of employees by different appropriations.

Mr. THOMAS. Give us the sum total of the three activities which are not included in salaries and expenses those employees being in addition to——

Mr. MACY. 2,536 is the number of employees under the "Salaries and expenses" appropriation for fiscal year 1964. In addition to that, the Commission will require 1,535 employees under the revolving fund.

Mr. THOMAS. That figure was 2,494, did you say?

Mr. MACY. 2,536 is estimated for June 30, 1964.

Mr. THOMAS. You set out here 2,494.

Mr. MACY. I beg your pardon.

Mr. THOMAS. That is for fiscal 1964, including your central office and your field offices, 2,494. Now you come up with 2,536.

Mr. MACY. The average employment for 1964 in the "Salaries and expenses" appropriation is 2,494, as you say. The figure for June 30, 1964, is estimated as 2,536.

Mr. THOMAS. What do you mean by average employment? What about specific jobs, appropriated jobs, slots?

Mr. MACY. This is the average number of positions to be filled during the fiscal year.

Mr. THOMAS. What is the number for the three? We will go into that later. What is the overall figure of the 3 activities in the personnel load not covered in this 2,494?

Mr. MACY. In addition to that, under the revolving fund for investigative activities, the figure is 1,535. In addition 282 employees are for activities for which the Commission is reimbursed. This includes the administrative funds for health benefits and life insurance. It includes certain reimbursable activities under the Training Act. It includes Commission personnel on the international organizations activities. This provides a grand total for the Civil Service Commission for fiscal year 1964 of 4,368.

Mr. THOMAS. Quite an agency. That is a little different from 2,494. Excuse me. Go ahead. That clears the record.

Mr. MACY. It is interesting to note, Mr. Chairman, that the number of employees under salaries and expenses has been reduced, whereas the overall total has been increased, largely due to these new activities which have been added.

GOVERNMENT PAYMENT FOR ANNUITANTS, EMPLOYEES HEALTH BENEFITS FUND

This appropriation covers the contribution of the Government toward the health benefits subscription charges for annuitants participating in this program. There were 79,000 annuitants enrolled as of June 30, 1962, and this number will increase each year by approximately 40,000 thereby increasing the amount of contribution required.

The funds appropriated under this head are placed in the employees health benefits fund and used to pay the Government's share of health benefits contracts. The funds are available until expended and may not be used for any other purpose. Due to the substantial reduction made in the 1963 budget request for this item, the funds available are inadequate to meet the needs, and a supplemental appropriation of $977,000 is being requested.

The budget request of $9,530,000 for fiscal year 1964 is based on the Government contribution required to meet subscription charges for the increased number of annuitants who will be participating in the program in that year.

An expense limitation of $1,157,000 is requested to provide for the administration of the employee health benefits program in fiscal year 1964.

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GOVERNMENT CONTRIBUTIONS, RETIRED EMPLOYEES HEALTH BENEFITS FUND

The retired employees health benefits program provides health benefit coverage to those annuitants not eligible to participate in the employees' program. At present there are approximately 245,000 participants in this program. This appropriation provides the Government's share of the cost.

The Commission and the carrier of the uniform plan have reached the conclusion that an increase in premium rates of 15 percent will be necessary for the policy year beginning July 1, 1963. The Commission proposes that this increase be shared by the Government and the enrollees. On this basis the contribution of the Government for fiscal year 1964 will require an appropriation of $14,860,000.

LIMITATION ON ADMINISTRATIVE EXPENSES

The basic act provides that not to exceed 2 percent of the Government's contribution shall be available to cover administrative expenses of the program. However, as was the case last year, the Commission finds that the amount available under this limitation will be insufficient to carry out the responsibilities to this program, primarily because of the additional work which the expected premium rate increase will require. Accordingly, the Congress is requested to provide a specific dollar limitation of $392,000 for administrative expenses for fiscal year 1964.

Mr. OSTERTAG. This last point you made about the limitation is not clear to me. The basic act limitation is 2 percent. You intend to ask the Congress to provide a special dollar limitation of $392,000. Are you proposing Congress amend the law?

Mr. MACY. Yes.

Mr. OSTERTAG. Is it your intent to achieve this change by means of this appropriation?

Mr. MACY. Yes.

Mr. OSTERTAG. How can we do that if it is not authorized by law?

Mr. IRONS. We did it last year.

Mr. MACY. The limitation can be established by appropriations. We are concurrently proposing to the substantive committees that the legislative requirement be modified to permit this kind of action on a continuing basis.

Mr. OSTERTAG. That is my point. You are asking the committee to do that first.

Mr. MACY. Yes; as we did last year.

Mr. OSTERTAG. As provided here, it would be subject to a point of order?

Mr. MACY. That is correct.

Mr. IRONS. May I refer to the language of last year, reported by this committee, following this same kind of conversation—

that, without regard to the provisions of any other act, not to exceed $375,000 of the funds in the retired employees health benefits fund, shall be available for reimbursement to the Civil Service Commission for administrative expenses incurred by the Commission during the fiscal year ending June 30, 1963, in the administration of the Retired Federal Employees Health Benefits Act.

At that time we informed the committee we were asking our substantive committee to remove this 2-percent limitation.

The bill got caught up in the legislative logjam of the last day or two of Congress and did not pass, and we have this year asked the substantive committee for relief from this unrealistic 2-percent limitation.

Mr. THOMAS. What was it on, life?

Mr. MACY. You established a limitation. It is fixed annually by the Congress.

Mr. THOMAS. There is a hiatus in the two programs.

Mr. OSTERTAG. What does 2 percent amount to?

Mr. IRONS. $294,300.

Mr. OSTERTAG. About a $100,000 difference between what you need and what you receive under this program?

Mr. IRONS. Yes.

INCREASE DUE TO INCREASED ANNUITY

Mr. MACY. The administrative costs will be greater during this year because of the necessity for processing this expected premium rate increase.

Mr. RHODES. Why would it cost more to process a higher premium?

Mr. MACY. It will necessitate changes in computation and record-keeping, and notices to the participants in the program of the change in premium, so it will be the development of materials, distribution of those materials, advice to all that are covered.

Mr. RHODES. Would that cost $100,000.

Mr. MACY. It will cost at least that.

Mr. IRONS. This is not an increase of $100,000 over our figure of last year. It is actually the difference between $375,000 and $392,000.

Mr. RHODES. This is a one-time increase then?

Mr. IRONS. We will be back again next year asking for something approaching $392,000. That is just about our ongoing costs.

Mr. OSTERTAG. But 2 percent may yield more as time goes on?

Mr. MACY. This is a diminishing program. This includes those who were already retired as of the effective date of the program for active employees on July 1, 1960.

We have found that the 2 percent is too rigid a limitation on the administrative costs of handling this program.

We have found, for example, Mr. Rhodes, there has been a rather substantial volume of correspondence with these people. Many of them are older people and do not have recourse to advice. This program at best is complicated in determining which of the optional programs should be selected. We feel we have an administrative obligation to respond as precisely as we can.

CONTRIBUTIONS OF GOVERNMENT AND RETIREES

Mr. RHODES. How much does this cost each of the individuals who are covered?

Mr. MACY. It will vary from plan to plan.

Mr. RUDDOCK. The retired employee eligible under the present program may participate in the uniform plan, a plan established by

contract between the Commission and the insurance industry with Aetna as the prime contractor. The employee has the choice of taking either basic coverage, in which the premium is $6.50 per month for self only, or $13 a month for self and family.

Mr. RHODES. Is this the cost to the retired employee, or is this the total cost of which the retired employee bears one-half?

Mr. RUDDOCK. This is the total premium, $6.50 single; $13, self and family.

The Government makes a contribution of $3 a month for self only, or $6 a month for self and family. But the individual also has a further choice. Instead of taking basic, he may take the major medical portion of that plan. The premium on that is $6 a month self only, or $12 a month self and family.

If he takes that, instead of basic, he would get the same Government contribution, $3 a month for self only, or $6 a month for self and family. He may choose to take both parts, both basic and major medical, in which event the total premium is due. The Government contribution remains $3 self only, or $6, self and family.

Mr. THOMAS. While we are on this subject, we may as well go into it in more detail.

What is the formula for Government participation for the cost per employee—retired employee?

You have a formula there regardless of which program he elects to take where he gets full protection for himself, or himself and his family. You have a variation of a half dozen plans. You have a general yardstick and it is not quite 50–50, contributions by the employees and the Government.

Mr. RUDDOCK. Let me add to what I have said and I think it will help clarify this point.

The person who is eligible does not have to participate in the uniform plan which is arranged by contract between the Commission and the insurance industry. He may participate in any one of a number of private plans, like Blue Cross-Blue Shield, or plans sponsored by the National Association of Retired Civil Employees, or plans underwritten by large insurance companies. If he chooses to participate in a private plan, he still gets the same Government contribution, $3 a month if his enrollment is for self only, or $6 a month if it is for self and family.

The coverage breaks almost 50–50 between self only and self and family.

Mr. THOMAS. That is the figure we are interested in. Give us that. It is pretty favorable to everyone. By virtue of the fact you have to reshuffle this program, we sold it a little too cheap, did we not?

Mr. RUDDOCK. Of the total enrolled, 243,910, 134,390 are enrolled in the uniform plan and 109,520 are enrolled in these private plans.

Mr. THOMAS. It is almost a 50–50 proposition?

Mr. RUDDOCK. Yes.

Mr. MACY. The reason we hesitate is, it is not exactly 50–50; I think you can generalize by saying approximately it is 50–50.

These are the retired employees. Those employees who retired prior to July 1, 1960. Now, those that have retired subsequently are continued under the other program for active employees. They continue after retirement. That is why this group has a declining population.

Mr. OSTERTAG. Is it not probable that a larger percentage of these people already possess one form of insurance or another, and just elected to have the Government pay the 50 percent of the cost.

Mr. MACY. That is very true.

Mr. OSTERTAG. On whatever plan or policy they had in effect?

Mr. MACY. They were able to do that under the options provided to them. It necessitated going to everybody on the retirement rolls giving them that option, and then administering each one of those ones when they made their election.

Mr. LAWTON. I do not think you want to get the impression the Government pays 50 percent. It does not. It pays slightly less than 50 percent if you take the minimum. If you take both basic coverage and major medical, the Government still pays only $3 for one person, or $6 a family, or the employee pays $12 or $18.

Mr. THOMAS. We will put the tables under each one of the headings in the record later on.

Mr. OSTERTAG. You are budgeting the $392,000 for administrative costs.

Mr. MACY. Yes. This is our estimate of funding requirements to handle the administrative expenses of this program.

Mr. THOMAS. That is the 282 employees we said were not covered in salaries and expenses.

Mr. MACY. This program requires 50 of the 282 employees.

Mr. THOMAS. Proceed.

PAYMENT TO CIVIL SERVICE RETIREMENT AND DISABILITY FUND

Mr. MACY. The next appropriation I would like to refer to is the one relating to the payment to the civil service retirement and disability fund. This is an appropriation on which we have had active discussions in years past.

Public Law 87–793 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 will result in increases in the deficiency. The increased benefits payable under part III of Public Law 87–793 cannot be paid since that law does not authorize funds for this purpose. We, therefore, are requesting a supplemental appropriation of $30 million to cover these increased benefit payments in fiscal year 1963. Our budget request for fiscal year 1964 includes $62 million, the estimated amount for increases in payments for that year.

As required by section 17(e) of Public Law 84–854, approved July 31, 1956, estimates of the appropriation necessary to finance the fund on a normal cost-plus-interest basis have been computed. The estimated costs developed are included in this submission; however, an appropriation request for this amount is not being made. The Government's contributions have not been sufficient to build up the necessary reserves required for probable future requirements and we are now considering the matter of legislation to correct the financing of this fund. The proposed legislation will be developed with the intent to assure that sufficient funds will be available to pay future benefits, that employees' contributions are maintained unimpaired, and that an appropriate basis of contributions is maintained, without the need for

building up an enormous fund from advance appropriations. We are now in the process of exploring a variety of alternatives and hope to have a specific legislative proposal introduced in the near future.

Mr. THOMAS. Give us a little preview of your thinking there.

Mr. MACY. Mr. Lawton, would you like to pick that one up?

Mr. LAWTON. The idea we have at the moment, and are exploring, is to provide for an annual increment in the agency contributions to this fund which would build up——

DEFICIT IN RETIREMENT FUND

Mr. THOMAS. First, what is the figure of insolvency of the fund?

Mr. MACY. The deficiency at this time is about $38 billion.

Mr. JONAS. That is up how much from last year?

Mr. MACY. It is up approximately $4 billion from last year, due to the salary increases and the lack of any appropriation to the fund.

Mr. THOMAS. Proceed, Mr. Lawton.

PROPOSED FINANCING OF THE RETIREMENT FUND

Mr. LAWTON. The proposal would be to augment, or increase, the agency contribution by a half a percent perhaps per year.

Mr. THOMAS. That makes sense. They can absorb that through attrition, one-half percent.

Mr. LAWTON. Up to about where it would be double the employee contribution.

Mr. THOMAS. Half a percent per year?

Mr. LAWTON. Per year. In 15 years, it would reach about 13 percent.

Mr. THOMAS. What would be the agency contribution for 1965?

Mr. LAWTON. Seven percent.

Mr. THOMAS. How much money over and above what the agencies are putting out?

Mr. MACY. $84 million in 1965.

Mr. THOMAS. So the average increase per agency would be a sum they possibly could absorb?

Mr. MACY. Defense would carry about 50 percent of that.

Mr. LAWTON. It would be one-half of 1 percent of payroll.

Mr. THOMAS. They are making a contribution now of 6.5 percent?

Mr. LAWTON. That is right.

Mr. OSTERTAG. Would it increase?

Mr. LAWTON. About half a percent a year.

Mr. EVINS. For about 15 years?

Mr. LAWTON. For about 14 years. In 1977, it would get up to 13 percent, and would remain at that level for a period of time. Meanwhile, remaining at that level, it would still build up the balance in the fund. The balance would continue to build up until 1988.

Mr. OSTERTAG. What is the theory of an increase of one-half percent per year? As it increases, you are putting a heavier burden on certain years as compared to the first year when you start. In other words, you are starting with a half percent, and next year it is double that and next year it is double that.

Mr. MACY. No. It is somewhat similar to the social security tax progression. Only what we would propose is a one-half-of-1-percent

increment each year so it would in 1965 be 7 percent for the agencies rather than 6½, and in 1966 it would be 7½. This would permit an increase in the fund from its present level up to about $26 billion, which would be roughly two times the employee's equity.

Mr. THOMAS. A $100 million appropriation addition by the agencies in 2 or 3 years. With all of the agencies combined, it would be better than to come back to them in 5 years and say, "We have to have $2 or $3 billion." It would be a painless way of doing it.

Mr. LAWTON. It would be about $70 to $80 million a year.

Mr. OSTERTAG. You say it would be easier or softer in its application than a straight uniform percentage over a period of years.

Mr. MACY. Yes, sir. This would mean the increase in any 1 year on the agency would be relatively minor. The agency would contribute to the fund. By doing this, we would avoid the situation of the fund virtually running out in about 1979, and necessitating a direct appropriation at that time in the neighborhood of $1,300 million.

Mr. JONAS. The accumulative increase is substantial. That is what Mr. Ostertag is talking about. When you go over a period of years, from 6½ to 13 percent, that year when it is 13 percent is a big advance over 6½.

Mr. LAWTON. In actual figures, in 1964, the estimated agency contribution here will be $920 million.

In 1977, it would be $1,865 million.

Mr. MACY. It is approximately double what is presently being contributed by the employees at the point when we reach 13 percent. Then we would sustain it at 13 percent.

Mr. LAWTON. As you build up your fund, your interest also increases at the same time, which contributes, in part, to this total in the fund. Your interest income would go up from $418 to $815 million in the same period.

Mr. RHODES. If I understand you correctly then, beginning at the time the plan goes into effect, there will be sums taken from the annual appropriation of each agency and transferred by the Treasury from that agency to the credit of the employees' retirement fund.

Mr. MACY. That is correct.

Mr. RHODES. So it will not require an appropriation to accomplish this. The appropriation will have been made to the agency itself?

Mr. MACY. That is right. This would be a part of the agency's payroll cost.

Mr. RHODES. Right.

Mr. MACY. And would be, therefore, appropriated in each agency's bill.

Mr. RHODES. And the percentage which will be taken from each agency will increase one-half of 1 percent each year until you arrive at the percentage of 13, which would take how many years?

Mr. MACY. It would take 14 years. We have 6.5 percent now. We would reach 13, according to our present plan, in 1977.

Mr. RHODES. You are at 6.5 now, and it is not adequate to meet the requirements of the fund?

Mr. MACY. In other words, the 6.5 now is not even adequate to cover the normal cost of the plan at the present time. The result is that the deficiency is increasing at a rate of approximately $1 billion a year without any inclusion of liberalized benefits, or pay increases

which further increase the deficiency. By adopting this plan, there would be a greater input into the fund. Therefore, the fund would rise and the interest going into the fund would increase. We would be able to build up the fund because the input would be at a higher rate than the payments that are being made during this period.

Mr. OSTERTAG. The employee's contribution would remain stationary?

Mr. MACY. They remain at 6.5 percent.

Mr. THOMAS. They have been paying and we have not?

Mr. OSTERTAG. That is right.

Mr. MACY. I think it would help further explain that what needs to be done here is to overcome a condition produced by omissions in the past.

Mr. RHODES. That is correct.

The only alternative, I guess, would be to appropriate in this year, or perhaps in the next 2 or 3 years, a sum equal to $38 billion and raise the debt ceiling in order to show this is a part of the national debt, which of course it is anyway. In other words, we are doing it by bits and pieces instead of taking one or two great big bites at it; is that a fair statement?

Mr. THOMAS. Very accurate.

Mr. MACY. That is right. We would never reach the point where we would completely eliminate the deficiency because the deficiency is based on an actuarial formula.

Mr. RHODES. Right.

Mr. MACY. That is computed by determining what you would have to pay if you closed out the entire program at one point which is an unrealistic condition.

Mr. EVINS. Do you agree with Mr. Martin, that deficits can be in some instances beneficial?

Mr. MACY. I will refer that to my fiscal adviser.

FINANCING OF INCREASED ANNUITY BENEFITS

Mr. OSTERTAG. In your statement Mr. Chairman, you point out that the budget includes $62 million. That is for 1964?

Mr. MACY. Yes, sir. Yes, $62 million——

Mr. OSTERTAG. What does that amount specifically cover?

Mr. MACY. That is to cover the liberalization in annuity payments to those presently retired as authorized by part 3 of Public Law 87–793. That is the necessary funding of that increase as long as the appropriation rider continues in effect, which makes it necessary to appropriate directly to cover the cost of further liberalization of the retirement plan.

Now, if the legislative proposal that we have been talking about were introduced, it would be the intent to have that supersede that rider and to absorb this increased cost out of the fund rather than to appropriate directly for it.

Mr. JONAS. That will not take care of future liberalizations, will it?

Mr. MACY. No. This would be only for the liberalization that was authorized last year. The cost in 1963 is still pending. That is $30 million to cover the cost of that liberalization until June 30, 1963.

Mr. OSTERTAG. The $62 million that you are requesting for fiscal year 1964, in the absence of this proposed law, does that amount cover the entire obligation of the Government for this year?

Mr. MACY. The $62 million would cover the obligation of the Government for the liberalization authorized in 1962 for 1964.

Mr. OSTERTAG. Only the liberalization?

Mr. MACY. That is correct.

Mr. OSTERTAG. It would not be a matching of the complete obligation of the Government for the year 1964?

Mr. MACY. No, sir.

This just covers the 5-percent liberalization in annuity rates for those presently retired.

Now, in the absence of any legislation, the only way that new obligations can be financed is through an appropriation of $62 million. Otherwise, it is not possible for the Commission——

NORMAL COST-PLUS-INTEREST FINANCING

Mr. OSTERTAG. If the Government funded its complete obligation for 1964—and I am not referring to past obligations, I have in mind the complete obligation for 1964—what would that amount to?

Mr. RUDDOCK. $1,174,187,000.

The total Government normal cost is roughly $1 billion and the interest on the deficiency, which is merely for the purpose of keeping the unfunded liability from growing, not to amortize any part of it, is another $1 billion, so the total required on a normal cost plus interest basis is $2,094,470,000. Through the process of appropriations made to agencies, and then their turning into the retirement fund 6½ percent of salaries, agency contributions will provide $920,283,000. This leaves the amount of normal cost, plus interest, not met by agency contributions at $1,174,187,000.

Mr. OSTERTAG. Therefore, at the end of this next year, on this basis, the obligation will be increased by $1,174 million.

Mr. MACY. Exactly. This would be the case in succeeding years unless some action is taken.

Mr. THOMAS. It is the painless way to do it. It would tend to cut down this insolvency.

Mr. MACY. May I add a footnote to what Commissioner Lawton and I have said with respect to this plan?

This is one of a number of plans under consideration. Of course, its accomplishment can only take place through action on the substantive side in the Congress.

We feel this approach is a sound one, that it is administratively feasible, and we hope to be able to provide this as a recommendation to the Congress.

TIMETABLE FOR REVISED RETIREMENT FUND FINANCING

Mr. OSTERTAG. You do not anticipate that any such changes will take place which will be applicable to this budget?

Mr. MACY. Applicable to this budget——

Mr. OSTERTAG. For this fiscal year?

Mr. MACY. For fiscal year 1964, it would be our hope this plan for long-term financing could be enacted during the current session of Congress to be applicable in the following fiscal year.

Mr. OSTERTAG. Your fiscal year starts July 1 and appropriations will be made within a short time to cover this year. But it is quite unlikely that the Congress would get around to making such a change in time to be included in this particular fiscal year.

Mr. MACY. Your observation is entirely realistic.

In all likelihood, a legislative proposal of this kind could not be effective prior to the fiscal year 1965.

Mr. THOMAS. Something should be done. This fund is defunct $38 billion, and the employees have been paying their money and Uncle Sam has not been paying his part. The liability is increasing now in round figures at the rate of $1 billion a year—is that correct?

Mr. MACY. $1 billion a year.

Mr. IRONS. May I add one thing so there is no misunderstanding about it? We need the $62 million we are asking for.

Mr. OSTERTAG. There can be no question about that. But it does seem to be appropriate to place this budget item in a proper perspective to the overall picture.

Mr. MACY. The Civil Service Commission supports your view on this completely. This is a high priority item in our program at the present time.

I can conclude my statement very quickly. The final reference is to the limitation on administrative expenses, employee life insurance fund.

LIMITATION ON ADMINISTRATIVE EXPENSES, EMPLOYEES LIFE INSURANCE FUND

A limitation of $279,000 is requested to provide for administration of the Federal employees group life insurance program. This represents an increase of $24,000 over the limitation currently authorized for fiscal year 1963 and results primarily from increased pay costs.

This concludes my opening statement, gentlemen. We shall be glad to answer any questions the committee may have.

All of us here representing the Commission would be pleased to respond to the best of our ability to your questions.

Mr. THOMAS. Off the record.

(Off the record.)

Mr. THOMAS. You have made a very fine statement. We appreciate your courtesy and tolerance here.

TURNOVER IN FEDERAL EMPLOYMENT

Let's talk about Federal employment this year, what it looks like in the future, and what your turnover is.

We have been of the opinion around here that the turnover is around 14 or 15 percent, but you come up here with some jolting figures. It looks like for fiscal year 1962 it is 16.1, and next year it is going to be 18.2

We have a tremendous unemployment load throughout the country. Salaries have been raised to the highest point in the history of the

Government. We always thought there was some connection between general unemployment and desire to get on the Federal payroll. Salaries have been increased.

Why is that turnover figure of 18.2 next year so high?

Mr. MACY. I believe the figure is 16.1; 16.1 is the figure the Commission has been using as the new hire rate.

Mr. THOMAS. The new hire rate is dependent upon your turnover?

Mr. MACY. That is correct.

Mr. THOMAS. You gave a figure of almost 18.1 percent. This year it is 16.2.

Mr. MACY. The new hire rate was 18.2, in 1962. This was largely attributable to the growth of employment that took place during 1962, which meant there was more than a replacement of turnover. There were additional employees placed on the payroll.

TOTAL FEDERAL EMPLOYMENT

Mr. THOMAS. What is your figure now for total employment?

Mr. MACY. 2,514,000 employees.

Mr. THOMAS. What was the total employment figure for the last 5 years?

Mr. MACY. The figure on June 30, 1958, worldwide, was 2,382,000.

In 1959, the same date, 2,383,000.

In 1960, 2,399,000.

In 1961, 2,436,000.

In 1962, 2,514,000.

And the most recent figure I have, Mr. Chairman, is the strength for November 30, 1962, which was 2,516,000.

The projected employment for the next 2 years——

Mr. OSTERTAG. Does that include the military?

Mr. MACY. No, sir. This is civilian employment, worldwide, throughout the Government.

The President's budget includes an estimate for June 30, 1963, of 2,534,000, and for yearend 1964, 2,571,000.

Mr. THOMAS. Does this include Government corporations—TVA and everything?

Mr. MACY. Yes. This includes all Government employees.

Mr. OSTERTAG. How about civilians in the military?

Mr. MACY. Civilians in the Department of Defense would make up approximately 42 percent of this.

Mr. THOMAS. All of these people you mentioned covered in total employment are not under the retirement fund?

Mr. MACY. The vast majority are, about 90 percent. Temporary appointees would not be.

AGENCIES HAVING SEPARATE RETIREMENT SYSTEMS

Mr. THOMAS. You have some agencies that are independent.

Mr. MACY. The State Department has its own retirement system for Foreign Service.

Mr. THOMAS. What agencies have their own retirement systems not covered in this?

Mr. MACY. The State Department's Foreign Service, the TVA. I am unaware of any others.

Mr. RUDDOCK. The Board of Governors of the Federal Reserve and Civilian Lighthouse Keepers, schoolteachers, and policemen and firemen in the District of Columbia government, Coast and Geodetic Survey, and Public Health Service Officers.

Mr. THOMAS. What about the employees of the contractors of the Atomic Energy Commission?

Mr. MACY. They are not included in this total strength I am talking about. They would be outside.

Mr. RHODES. The Export-Import Bank is outside?

Mr. MACY. That is a Government agency.

Mr. THOMAS. Let's detail those agencies, to get the record crystal clear, that are not included in your total figures here of Government employment and which are not included in your retirement system. Name them.

Mr. MACY. The State Department, the Tennessee Valley Authority, the Board of Governors of the Federal Reserve System have separate retirement systems, even though their employee strength is included in the total figure that I gave.

Mr. THOMAS. What about your contractors for the Atomic Energy Commission at their installations?

Mr. MACY. There are no employees of contractors of the Atomic Energy Commission, NASA, or the Defense Department included in these strength figures, or under the Civil Service Retirement Act.

Mr. THOMAS. You say they are only 10 percent.

What is the sum of employment of that half-dozen agencies that you mentioned that are covered in this figure of 2,500,000 Federal employment, and not covered under the civil service retirement fund?

Mr. MACY. I would estimate about 60,000.

In addition, Mr. Chairman, temporary appointees under the civil service are not covered under the Retirement Act.

This would include the State Department, TVA, and the Board of Governors.

As far as contractor employment is concerned, this is outside of our reporting system and I do not believe I would even hazard a guess as to the number of private employees of contractors who receive pay as a result of Government contracts. This would be totally outside our jurisdiction, except insofar as we conduct security investigations of contract employees under the Atomic Energy Commission. That would be our only contact with this.

Mr. THOMAS. That figure of 60,000 would not touch contractor employees.

Mr. MACY. I am not including contractor employees.

I would be unwilling to hazard a guess as to the number of contractor employees who receive compensation through the contract from Government sources. This would run to a very high figure.

Mr. Chairman, in determining the Commission's budget, we utilized the year end strength for 1962, and we then applied the percentage of the total (competitive service) employment that is under civil

service, and we came up with a figure of 2,159,000 as the total number of civil service employees. And then we figured 16.1 percent as the new hire rate, and in that way we computed we would be involved in new hires to the extent of 347,600 during both fiscal 1963 and 1964.

Our estimates in our various activities are based upon that as a planning assumption.

AVERAGE CIVIL SERVICE SALARY

Mr. JONAS. While we are on this, may I get a bit of information? What is the average civil service salary now?

Mr. MACY. The average for the entire service?

Mr. JONAS. Yes.

Mr. THOMAS. For this particular agency, $7,067.

Mr. JONAS. I mean Government-wide. You have given us that information in previous years.

Mr. MACY. The median salary was about $5,500.

Mr. OSTERTAG. It must be higher today than it was a year ago because of the general increases.

Mr. MACY. That is correct.

Mr. JONAS. A year or so ago, you used the figure of $5,000.

Mr. MACY. The median salary for employees under the Classification Act was $5,540 as of June 30, 1962.

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	16,555	17,568	17,761
	Positions other than permanent	127	123	100
	Other personnel compensation	348	102	157
	Total personnel compensation	17,030	17,793	18,018
12	Personnel benefits	1,253	1,325	1,333
21	Travel and transportation of persons	511	548	548
22	Transportation of things	142	143	147
23	Rent, communications, and utilities	842	881	960
24	Printing and reproduction	533	507	497
25	Other services	142	87	87
	Services of other agencies	288	217	221
26	Supplies and materials	257	257	257
31	Equipment	336	165	112
	Total obligations	21,334	21,923	22,180

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	2,987	2,730	2,653
Full-time equivalent of other positions	25	23	18
Average number of all employees	2,508	2,542	2,494
Number of employees at end of year	2,537	2,560	2,536
Average GS grade	7.2	7.2	7.2
Average GS salary	$6,625	$7,067	$7,088

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Recruiting and examining	6,528	6,740	6,748
2. Investigation of character and fitness for employment	3,747	3,552	3,510
3. Inspections and classification audits	2,772	3,047	3,155
4. Administration of the retirement systems	2,833	3,253	3,209
5. Developing programs and standards	1,748	1,809	1,859
6. Appellate functions	1,051	1,142	1,182
7. Executive and administrative services	2,428	2,546	2,548
Total program costs, funded	21,107	22,089	22,211
Change in selected resources [1]	227	−166	−31
Total obligations	21,334	21,923	22,180
Financing:			
Unobligated balance lapsing	10		
New obligational authority	21,344	21,923	22,180
New obligational authority:			
Appropriation	21,349	21,349	22,180
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (75 Stat. 353 and 76 Stat. 728) (−)	−5	−20	
Appropriation (adjusted)	21,344	21,329	22,180
Proposed supplemental due to pay increases		594	

[1] Selected resources as of June 30 are as follows: Unpaid, undelivered orders, 1961, $162,000 (1962 adjustments −$24,000); 1962, $365,000; 1963, $199,000; 1964, $168,000.

Mr. THOMAS. We will insert pages 1 through 6 in the record. (The pages referred to follow:)

"General and special funds:

"SALARIES AND EXPENSES

"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 [$83,000] *$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; [$21,349,000] *$22,180,000: 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, 851–869, 901–958, 1010, 1051–1052, 1071–1133, 1151, 1162, 2001–2007, 2061–2066, 2121–2123, 2251–2267, 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; 2160; 65 Stat. 757; 66 Stat. 122; 68 Stat. 1115; 70 Stat. 721; Executive Orders 9830, Feb. 24, 1947; 10000, Sept. 16, 1948; 10242, May 18, 1951; 10422, Jan. 9, 1953; 10450, Apr. 27, 1953; 10530, May 10, 1954; 10540, June 29, 1954; 10552, Aug. 10, 1954; 10556, Sept. 1, 1954; 10590, Jan. 18, 1955; 10647, Nov. 28, 1955; 10774, July 25, 1958; 10826, June 25, 1959; 10869, Mar. 9, 1960;*

10880, June 7, 1960; 10903, Jan. 9, 1961; 10973, Nov. 3, 1961; 10987, Jan. 17, 1962; 10988, Jan. 17, 1962; Independent Offices Appropriation Act, 1963.)"

No change in appropriation language is requested for fiscal year 1964 other than to indicate the total amount of appropriation requested.

Comparative summary by activity

Activity	1963, authorized	1964, estimate	Changes (+ or −) 1964 compared with 1963
1 Recruiting and examining	$5,159,400 (5,517,500)	$5,350,000	−$167,500
2 Investigation of character and fitness for employment	2,816,000 (2,998,600)	2,873,000	−125,600
3 Inspections and classification audits	2,431,100 (2,610,000)	2,610,000	0
4 Administration of the retirement systems	2,514,100 (2,673,100)	2,580,000	−93,100
5 Developing programs and standards	1,416,800 (1,531,000)	1,531,000	0
6 Appellate functions of the Commission	916,400 (990,000)	990,000	0
7 Executive and administrative services	1,982,900 (2,108,900)	2,084,000	−24,900
Total, personal services	17,236,700 (18,429,100)	18,018,000	−411,100
Other obligations	4,112,300 (4,209,900)	4,162,000	−47,900
Total, program or estimate	[1] 21,349,000 (22,639,000)	22,180,000	−459,000
Average number of positions:			
Central office	1,510	1,478	−32
Regional offices	1,032	1,016	−16
Total	2,542	2,494	−48

[1] Does not include anticipated supplemental appropriation of $594,000 for part of pay raise and related costs resulting from Public Law 87-793.

NOTE.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

Comparative summary by object classification

Object class	1963 authorized	1964 estimate	Fiscal year 1964 over (+) or under (−) fiscal year 1963
11 Personnel compensation	$17,236,700 (18,429,100)	$18,018,000	−$411,100
12 Personnel benefits	1,286,700 (1,384,300)	1,332,700	−51,600
21 Travel and transportation of persons	547,800	547,800	0
22 Transportation of things	143,600	146,600	+3,000
23 Rents, communications, and utility services	901,100	960,200	+59,100
24 Printing and reproduction	507,000	497,000	−10,000
25 Other services	304,500	308,700	+4,200
26 Supplies and materials	257,300	257,300	0
31 Equipment	164,300	111,700	−52,600
Total, obligations	[1] 21,349,000 (22,639,000)	22,180,000	−459,000

[1] Does not include anticipated supplemental appropriation of $594,000 for part of pay raise and related costs resulting from Public Law 87-793.

NOTE.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

GENERAL STATEMENT

Funds appropriated under this heading provide for most of the Commission's normal operating expenses, i.e., salaries, travel, printing, supplies, and equipment. Programs financed from this source are: (1) Recruiting and examining; (2) investigation of character and fitness for employment; (3) inspection and classification audits; (4) administration of the retirement systems; (5) developing programs and standards; and (6) appellate functions of the Commission.

For fiscal year 1964 the Commission requests a "Salaries and expenses" appropriation of $22,180,000 in order to carry out its responsibilities as described under each activity summarization.

Economies achieved in fiscal year 1962

During fiscal year 1962, the Commission achieved substantial economies in its operations and reductions in administration costs through the abolishment of its Cincinnati regional office, the establishment of area centers for processing national agency check and inquiry investigations, and the reorganization of its 10 remaining regional offices. These savings will permit the Commission to assume new responsibilities assigned by Executive order and Presidential directive without any increase in appropriated funds and are reflected in reduced unit costs in the 1963 authorized programs and 1964 budget estimates presented herein.

Effect of Public Law 87-793 on fiscal year 1963 program

Public Law 87-793, approved October 11, 1962, provided a Federal salary reform system, raised postal rates, and increased certain civil service retirement benefits. In addition to the increased costs for basic compensation and postage common to all agencies, the Commission will incur added expense due to part III of the act which provided for increases in retirement annuities effective January 1, 1963. This requires that all annuities be recomputed with the further complication that no funds were appropriated to finance these increased benefits and no authority was granted to pay such moneys from the civil service retirement and disability fund. Therefore, the Commission must recompute all annuities, while continuing to pay at the old rate, and accumulate all increases for retroactive payment to the effective date when funds are made available. This additional expense is estimated at $100,000.

The Executive Office of the President, through the Bureau of the Budget, requested all agencies to absorb as much as possible of the costs of the increases in basic compensation. Pursuant to this request the Commission will absorb 38.5 percent of the total increased cost for salaries and expenses in fiscal year 1963 applicable to Public Law 87-793 as detailed below.

Direct payroll costs	$755,500
Related costs (personnel benefits)	51,600
Payment to other accounts (Executive Order 10450)	3,700
Postage costs	55,200
Cost to recompute annuities	100,000
Total cost of Public Law 87-793	966,000
Amount to be absorbed	372,000
Anticipated supplemental request	594,000

Absorption of the $372,000 will be accomplished through efficiencies to be achieved in all of the Commission's programs and are reflected in the reduced unit costs in each activity summary following. Savings will first be applied to the cost of recomputing annuities, then to increased postage costs and the balance to direct and related payroll costs.

The attached table reflects the distribution among the several Commission activities of the added costs resulting from the passage of Public Law 87-793 as well as the amounts to be absorbed.

Effect of Public Law 87-793 on fiscal year 1964 budget request

Except for the effect of Public Law 87-793, the Commission's budget request for fiscal year 1964 for salaries and expenses is $400,000 less than that authorized in fiscal year 1963, due primarily to nonrecurring workloads. Added costs for fiscal year 1964 resulting from Public Law 87-793 amount to approximately

$1,597,000 of which the Commission will undertake to absorb $366,000 through a continuation of the same economies achieved in fiscal year 1963. The increase requested for fiscal year 1964, therefore, is due solely to the added costs resulting from Public Law 87-793. (See also, attached table for distribution of costs and amounts being absorbed).

Comparability of costs under revised pay scales

In view of the changes in salary rates occurring during both fiscal years 1963 and 1964 the summary tables for each activity under this appropriation reflect comparability through use of amounts in parentheses. These amounts in the 1962 and 1963 columns have been adjusted to reflect 1964 pay rates so that a direct comparison of all 3 fiscal years can be made.

Mr. THOMAS. The record is pretty complete, and I think it is excellent and quite clear as to what salaries and expenses cover. The salaries and expenses item for 1964 will be $22,180,000 against $21,349,000 for 1963, and the latter figure is without the pay increase. This covers:

Recruiting and examining, investigation of character and fitness for employment, inspections and classification audits, administration of the retirement systems, developing programs and standards, appellate functions of the Commission, and executive and administrative services.

There are seven in all.

We went into detail on three other activities, including around 1,800 employees not covered in this amount of money.

Mr. MACY. That is correct.

Mr. THOMAS. The number of employees covered in this amount of money is 2,494, and they are broken down into central office, 1,478, and then the regional offices, 1,016, and we will go into some detail when we get to the regions.

This shows a decrease of 48 employees in these 7 activities.

ABSORPTION OF PAY INCREASE COSTS

This is good information on pages 4 and 5, a general statement, more or less condensing what the Chairman has given us.

You have two supplementals pending for "salaries and expenses" appropriation. As well as I remember—correct me if I am wrong—you will have one in here for $594,000 for pay increase. You absorbed what?

Mr. MACY. 38.5 percent of the pay raise.

Mr. THOMAS. What did your pay raise for fiscal 1963 cost, approximately 8 percent? Was it around $900,000? You absorbed what part?

Mr. MACY. We are absorbing $372,000.

Mr. THOMAS. Your deficiency coming up is how much to take care of that item?

Mr. MACY. $594,000.

1963 SUPPLEMENTAL REQUEST FOR FURNITURE

Mr. THOMAS. You have another deficiency in the neighborhood of $500,000 for furniture. What is the correct figure?

Mr. MACY. $496,000 for furniture.

Mr. THOMAS. Furniture?

Mr. MACY. For the new building that will be completed July 1.

Mr. THOMAS. We just bought new furniture for the Commission and all agencies in the New York office and headquarters here 2 years ago. I want you to come to my office and I will show you some nice furniture I have been using for 26 years. I think my predecessors used it for 20 years before that. It is still pretty good furniture.

What did they spend for that furniture, Brother Lawton, 3 years ago at Civil Service Commission headquarters?

Mr. LAWTON. For headquarters?

Mr. THOMAS. Yes. We bought a lot of furniture.

Mr. MACY. That was for the regional offices.

Mr. THOMAS. We got some here, too. What about it, Mr. Executive Director?

Mr. IRONS. The record shows clearly when we got the new building, the chairman of the Subcommittee on Appropriations, Independent Offices, guaranteed——

Mr. THOMAS. Quit needling us. What was the amount of new furniture? You bought a lot of new furniture. It looked mighty good to me. We are asking what you are going to do with the old stuff. We wanted it.

Mr. MACY. The junkman would not even take the old furniture off our hands.

Mr. THOMAS. Who has that figure?

Mr. MACY. We have been deferring on this for a number of years in anticipation of the completion of the building.

Mr. LAWTON. You are not thinking about the furniture you saw in New York that we got practically for free, are you?

Mr. THOMAS. What about it, Mr. Executive Director? You bought some furniture 3 years ago.

Mr. IRONS. I do not recall any appropriation by this committee to buy furniture for the central office of the Civil Service Commission.

Mr. WILLIAMS. Nothing specifically, Mr. Chairman. We get some furniture and equipment money normally, but this is for replacement.

Mr. THOMAS. We have been replacing it pretty fast. One year we replaced a whole lot.

Mr. WILLIAMS. We have not come up with any specific program for upgrading in the central office in the last 5 years.

Mr. IRONS. We asked for it.

Mr. THOMAS. I know you asked for it, but you got some of it one year. Some years you did not get it.

Mr. WILLIAMS. We were in last year for money for the new building.

Mr. THOMAS. Do you buy it from a General Services Administration schedule?

Mr. MACY. Yes.

Mr. THOMAS. What is the nature of the furniture you are going to buy? You are operating now very comfortably. Why spend that half million dollars for furniture? Tell us what it is all about.

Mr. MACY. This amount is necessary to cover desks, tables, stands, bookcases, filing equipment, shelving.

Mr. THOMAS. You will have 50 people fewer than you have now.

Mr. MACY. That is correct. This is through our efforts to achieve greater efficiency.

Mr. THOMAS. What do you need with a half million dollars more? Why can you not save that?

Mr. MACY. We will be retaining the equipment and furniture we have that is in a state of condition and repair that would justify its continued use. There is a great deal of furniture that has far outlived its usefulness and needs to be replaced—in fact, has needed to be replaced for some time.

In our view, at the time we make the move it would be efficient to have furniture that is adapted to the layout that we are proposing to have within the building. Each year we have deferred this in anticipation of the new building. We feel a very close kinship to this committee because this commitee is responsible for the fact that we will have a new building. We are grateful to the committee.

1963 SUPPLEMENTAL FOR THE RETIREMENT FUND

Mr. THOMAS. You have other supplemental items. What is your third one? Tell us about it.

Mr. MACY. This is $200,000 as a supplemental for the "International organizations" appropriation. There is $30 million to cover the annuitant increases for those already retired, as authorized by the law last year.

There is $977,000 to meet the needs in the health benefits program. These are items that will be coming up in the supplemental bill to be submitted shortly.

Mr. THOMAS. Those last ones you mentioned do not give us too much concern. We know that is more or less to some extent by operation of law. We do not want the retirement fund to become any more insolvent. I do not think the committee will have any trouble supplying the money. Does it average about 5 percent?

Mr. MACY. Yes, sir; about 5 percent.

Mr. THOMAS. For the retired folks.

Mr. MACY. May I say in respect to the furniture that I have been advised the building will be completed about the 1st of July.

Mr. THOMAS. Have those supplementals come over here yet?

Mr. MACY. Not yet.

REASON FOR REQUESTING FURNITURE IN SUPPLEMENTAL BILL

Mr. OSTERTAG. Why do you include the furniture in your supplemental request?

Mr. MACY. If we are going to occupy the building on July 1, the date GSA has given for completion, it would save us money if we could purchase that equipment and have it delivered to the new building rather than moving the existing equipment.

Mr. THOMAS. How are you going to save money? Will you buy it through General Services Administration?

Mr. MACY. Yes, sir.

Mr. THOMAS. They give you 40 or 50 days to pay for it. We always jump on them for that.

Mr. MACY. This would avoid the cost of having to move the old furniture to the new site.

Mr. BOLAND. That would simplify it rather than moving the old furniture.

Mr. RHODES. When will you be in the new building?

Mr. MACY. The date given to me this morning is July 1. The building is 70 percent complete.

PROVISIONS OF FURNITURE SUPPLEMENTAL

Mr. JONAS. How did you arrive at this $500,000 for furniture?

Mr. MACY. $496,000?

Mr. JONAS. Yes.

Mr. MACY. We had an analysis on an item-by-item basis.

Mr. JONAS. How much new furniture does that include?

Mr. MACY. How many items does it include?

Mr. JONAS. Is it all new?

Mr. MACY. No. We have gone through and made an analysis of every item we have. For example, on desks, we have in use at the present time 1,798 desks. We have reached the judgment that we can retain 737 of them. We are asking for the difference at an average cost of $79.17. The surplus desks will be turned over to GSA for reconditioning, distribution, or for disposal, depending upon what their judgment is on each item.

Mr. RHODES. Do you get any credit for that?

Mr. MACY. No; I do not believe we do.

Mr. JONAS. Read some more of the items.

Mr. MACY. On tables, 1,268 tables are presently in use, and we propose to retain 710. This would mean we would have to replace a total of 558. The average unit cost is $37.30. Total cost is $20,800.

On stands, we have 1,020. We will retain 439. The new requirement will be 581 at a unit cost of $26.12, for a total of $15,200.

Mr. JONAS. Would it not be a good idea to have that in the record?

Mr. THOMAS. He has it.

Mr. JONAS. I mean the whole table.

Mr. IRONS. It normally comes in under the supplemental.

Mr. MACY. We would be happy to have it in this record, too.

Mr. JONAS. Do you have wastebaskets there?

Mr. MACY. No; they do not come under this. I have stands, costumers, bookcases, filing equipment. We have the controversial item of rugs. There is sectional shelving. Then we have a number that are listed under "Miscellaneous" which includes printing plant equipment, training room equipment, et cetera.

Mr. JONAS. It all adds up to what?

Mr. MACY. To $496,000. This is the same figure we presented last year as a part of our submission on the budget for 1963.

Mr. OSTERTAG. If there is no objection, we shall include the table at this point in the record.

(The table follows:)

Furniture and equipment requirements—New building (replacements and additional needs)

Item and description	Quantity			Average unit cost	Total cost	Grand total
	In use [1]	Retain	Replacements and/or additional needs			
1. Desks, tables, stands			2,200		$120,000	$120,000
Desks	1,798	737	1,061	$79.17	84,000	
Tables	1,268	710	558	37.30	20,800	
Stands	1,020	439	581	26.12	15,200	
2. Chairs, costumers, valets			2,900		69,000	69,000
Chairs	4,864	2,631	2,633	24.63	65,000	
Costumers, valets	701	434	267	14.45	4,000	
3. Bookcases	1,814	314	1,500	20.00	30,000	30,000
4. Filing equipment			1,200		145,000	145,000
Miscellaneous	972	388	584	189.21	110,500	
Correspondence	3,555	2,179	[2] 616	56.00	34,500	
5. Rugs			75	280.00	21,000	21,000
6. Sectional shelving			400	87.50	35,000	35,000
7. Miscellaneous furnishings					76,000	76,000
Miscellaneous cabinets	274	204	170	52.72	9,000	
Printing plant equipment			5	1,600.00	8,000	
Training room equipment			48	140.38	6,800	
Executive offices					23,200	
Medical equipment			21	80.95	1,700	
Auditorium					1,000	
Library equipment			139		26,300	
Grand total						496,000

[1] Column headed "In use" concerns central office proper (excludes Boyers and Site). Other items not scheduled for replacement are excluded from this table.
[2] A total of 1,376 cabinets (1- and 4-drawer type) will be replaced by 616 cabinets of 5-drawer type.

Mr. JONAS. You did not check this furniture yourself. Somebody did it in the Commission; is that right?

Mr. MACY. This was done by the office services staff in the Commission in collaboration with GSA.

Mr. OSTERTAG. Did GSA give you the prices?

Mr. MACY. GSA gave us the prices.

Mr. JONAS. Did GSA officials go through and help with the inspection?

Mr. MACY. Perhaps I ought to pass this to Mr. Williams. Would you give us some more detail on this?

Mr. WILLIAMS. They have assisted us in the survey, a piece-by-piece survey on every single piece of furniture in the central office of the Commission, and a joint evaluation of the condition of it as to whether or not it should be replaced.

Mr. JONAS. That is all I will ask. I assume we will have this up before the Deficiencies Subcommittee.

Mr. EVINS. This is your anniversary year.

Mr. MACY. Eighty years old this year.

Mr. EVINS. I think after 80 years a great Commission is entitled to a little refurbished quarters and new furniture. I imagine some of your furniture is worn out after 80 years. I have been down there.

I think you need a little refurbishing. It might do a lot for the morale of the employees and for their spirit, and might accelerate the work.

Recruiting and Examining

Mr. Thomas. Let us look at one of your big activities, Recruiting and Examining. We have talked about this for years. Who has this division now?

Mr. Macy. This is headed by Donald Harvey, who is the Director of the Bureau of Recruiting and Examining here in Washington.

Mr. Thomas. Why did you not bring him over? How long has he been with you?

Mr. Macy. He has been with us about 12 years.

Mr. Thomas. Not in this job.

Mr. Macy. No, but he has been with us. He has been head of this activity since 1952, as I recall it. If you would like to have other members of the staff accompany us, we will certainly do that in the future. It has been our feeling you wanted a limited group.

Mr. Thomas. You had 795 people in 1962, 796 for 1963, and you show 770 for 1964.

Mr. Macy. A reduction of 26.

Mr. Thomas. We have had the opinion that this is one of your activities you could cut half in two.

Mr. Reporter, please put in the record pages 9, 10, 11, 12, 13, and 14.

(The pages referred to follow:)

Comparative Summary Statement by Function

Activity 1. Recruiting and examining

Functions	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
C.S.C. examining operations: Conducting examinations	220	$1,371,005 (1,475,000)	217	$1,338,700 (1,392,700)	203	$1,297,200
Maintaining examination records	83	420,889 (449,700)	83	425,900 (436,900)	81	418,400
Referring qualified candidates	98	557,987 (596,600)	94	531,700 (550,200)	90	536,000
Subtotal, C.S.C. examining operations	401	2,349,881 (2,521,300)	394	2,296,300 (2,379,800)	374	2,251,600
Supervising Civil Service Boards of Examiners	134	1,015,008 (1,113,000)	142	1,149,200 (1,185,800)	142	1,185,800
Informing the public of Federal employment opportunities	45	376,508 (413,000)	52	469,500 (484,400)	52	484,400
Answering inquiries	156	921,030 (990,600)	151	912,600 (949,500)	145	910,200
Guidance to agencies on civil service requirements	29	237,995 (260,900)	26	224,100 (231,300)	26	231,300
Providing veterans Federal employment service	24	222,410 (244,500)	21	205,900 (214,500)	21	214,500
Federal employment statistics program	6	45,953 (49,800)	10	69,200 (72,200)	10	72,200
Total, activity 1	795	5,168,785 (5,593,100)	796	[1] 5,326,800 (5,517,500)	770	5,350,000

[1] Includes anticipated supplemental of $167,400 for part of pay increase costs.

Note.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

SUMMARY WORKLOAD TABLE

Activity 1. Recruiting and examining

Workloads	Fiscal year	On hand	Received	Processed	Canceled	Remaining	Unit cost	
Applications processed	1962	62,332	694,616	488,342	208,776	59,830	$2.81	([1] $3.02)
	1963	59,830	676,400	484,500	186,730	65,000	2.76	([1] 2.87)
	1964	65,000	679,100	493,800	195,300	55,000	2.63	
Names certified	1962			373,837			1.49	([1] 1.60)
	1963			357,700			1.49	([1] 1.54)
	1964			357,100			1.50	
Inquiries answered	1962			1,791,511			.51	([1] .55)
	1963			1,786,000			.51	([1] .53)
	1964			1,777,400			.51	

[1] Adjusted to reflect 1964 pay rates for comparability.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table.

	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	298	$1,982,380	310	$2,103,300	285	$2,009,000
		(2,145,100)		(2,176,000)		
Regional offices	497	3,186,405	486	3,223,500	485	3,341,000
		(3,448,000)		(3,341,500)		
Total, Activity 1	795	5,168,785	796	[1] 5,326,800	770	5,350,000
		(5,593,100)		(5,517,500)		

[1] Includes anticipated supplemental of $167,400 for part of pay increase costs.

NOTE.—Figures in parentheses are adjusted to reflect 1964 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 personnel 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 1964 program

Except for adjustments in cost resulting from increased pay rates, a decrease of $157,900 is projected for fiscal year 1964, from the amount authorized for 1963. This decrease is due entirely to the anticipated completion of the increased number of presidential postmaster examinations, resulting from revised qualification standards for these positions adopted by the Commission and the Post Office Department late in fiscal year 1961. Examinations were required for 2,180 vacancies over and above the normal annual replacement needs. To handle this extra workload effectively and economically, the Commission phased it over 2 fiscal years, 1962 and 1963; $157,900 was made available in each fiscal year to process it. In view of the anticipated return of the examination functions of the program to a normal level, appropriation for this amount is not required and, except for pay raise adjustment, the estimate for fiscal year 1964 reflects a decrease of $157,900 from the 1963 authorized program, distributed by function as follows: (1) Conducting examinations, $90,300; (2) maintaining examination records, $17,400; (3) referring qualified candidates, $13,400; and (4) answering inquiries, $36,800.

Accordingly, the fiscal year 1964 request for activity 1 represents a normal Commission examining program that is designed to permit conducting examinations in those areas where there is a constant need for new hires.

Federal employment level

Total Federal employment on June 30, 1962 was 2,514,196, of which 2,158,993, or about 86 percent, were in the competitive service. The Commission's budget estimates assume no increase in total Federal employment, above the June 30, 1962 level, for fiscal years 1963 and 1964.

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 years 1963 and 1964 will average 16.1 percent per annum. Although a rate of 18.2 was reached in fiscal year 1962, this higher rate was largely attributable to the growth in total employment which took place, and an estimate equivalent to fiscal year 1961 experience represents a more normal picture. Applying this 16.1 rate to the estimated average employment for the competitive service results in the following new hire estimate.

	Fiscal year 1963	Fiscal year 1964
Average employment in competitive service	2,159,000	2,159,000
Average new hire rate	×16.1	×16.1
Total new hires	347,600	347,600

The distribution of estimated new hires to be made in the Federal service is shown by the following table.

	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
Noncompetitive reinstatements	54, 353	48, 900	48, 900
New hires made by the Commission and its boards of examiners	299, 012	268, 700	268, 700
New hires made directly by agencies	33, 358	30, 000	30, 000
Total new hires	386, 723	347, 600	347, 600

Noncompetitive reinstatements involve former Federal employees who are entitled to reemployment on the basis of previous service.

Mr. THOMAS. You repeated our information here. You say that applying this 16.1 rate to the estimated average employment for the competitive service results in the following new hire estimates. You are going to hire 347,600 for 1964. The figure is the same for 1963. Those are round figures for 2 years. You have a good long-lens vision here, good strong glasses.

NONCOMPETITIVE REINSTATEMENTS

Noncompetitive reinstatements, 48,900 for 1963, 48,900 for 1964. Do you mean that with these salary increases, they go out by virtue of retirement and come back into the service? What is that figure?

Mr. MACY. These reinstatements are for individuals who have acquired status by the competitive process at some earlier time and have resigned and are now available for reemployment. It is our view that when we can reemploy those who have had experience, that this is beneficial to the Government. A significant number of the individuals in this category——

Mr. THOMAS. Have some already taken their retirement and come back in?

Mr. MACY. No, sir; these are for the most part women who were employed previously, have left the service for domestic reasons, and are now interested in being reemployed. Or they include individuals who may have left at some time to take private employment and are now available for rehire.

Mr. OSTERTAG. It is not a question of their rights for reemployment?

Mr. MACY. No; they have a hunting license based upon the fact that they previously acquired status. They call upon the agencies to see if there are employment possibilities for them on a reinstatement basis. We find that roughly 50,000 people each year are rehired to fill vacancies. This means we do not have to reexamine them.

Mr. OSTERTAG. That seems to be an exceptionally large number.

Mr. MACY. Yes; we think it is beneficial.

Mr. THOMAS. Has anybody in the Commission ever heard of rehiring one of your folks?

Mr. OSTERTAG. Are these noncompetitive positions? In other words, not classified civil service.

Mr. MACY. This is classified civil service. The word "noncompetitive" means they do not have to go through a new examination. They have been through the examination. They have established through service eligibility for reinstatement. If they leave on a resignation, they are available for reinstatement without taking a new examination.

Mr. OSTERTAG. How does that work with regard to existing lists of qualified people? Do they supersede the persons that are on the list for appointment?

Mr. MACY. Yes; they can be hired in lieu of the agency calling for a certificate of names off a new register. You will see that the relationship here is roughly five new hires off certificates to one noncompetitive reinstatement. It has been running about that way for the last 10 years.

Mr. THOMAS. May I suggest, gentlemen, that you keep before you two tables, one on page 9 and page 14, dealing with recruitment examination. Conducting examinations, 203 people in 1964 against 217 in 1963. Maintenance of examination records, 81 in 1964, 83 in 1963. Referring qualified candidates—that means to the agencies after you once say they are qualified— 90 jobs in 1964 against 94 in 1963. Supervising civil service boards, 142, 142, the same. Informing public of Federal employment, 52, 52, the same. Answering inquiries, 145, 151, a decrease of 6. Guidance to agencies on civil service requirements, 26, 26. Providing veterans Federal employment service, 21, 21. Federal employment statistics, 10, 10. That comes up with 770 employees in 1964, a total cost of $5,350,000.

RECRUITMENT BY CSC AND AGENCIES

It has been our understanding here that the agencies heretofore have been placing between 80 and 85 percent of all the people under the civil service system. Your tables here are a little bit misleading or ambiguous, or I do not read them correctly.

New hires made directly by the agencies, 30,000 out of your 347,600. Instead of being 10 percent, it ought to be at least 275,000 rather than 30,000.

In your next table, new hires made by the Commission and its Boards of Examiners, the agencies, you have 268,700. Do you not have your tables reversed?

Mr. MACY. No. May I explain this? The 268,700 includes——

Mr. THOMAS. Are you saying the agencies do not do any hiring, it is your Boards of Examiners? Is that it?

Mr. MACY. Yes, the Board of Examiners is an extension of the Commission, operated within the agency with agency personnel under Commission supervision.

Mr. THOMAS. They do not go through the process of taking your examinations, where you do the grading, and all of these, at least five activities set out here on page 9.

Mr. MACY. The first three activities on page 9 are performed by the Commission on the examinations that the Commission announces and conducts itself.

Mr. THOMAS. In the agencies?

Mr. MACY. No. The fourth item, Supervising Civil Service Boards of Examiners, is the staff the Commission uses to work with the 900

Boards of Examiners that are staffed by the agencies but which apply the Commission's rules and regulations and examining techniques.

Mr. THOMAS. Do you conduct examinations for every employee hired by the agencies?

Mr. MACY. Not with Commission personnel.

Mr. THOMAS. That is what I am talking about. You have your figures reversed.

Mr. MACY. No. Let me explain. The new hires made directly by the agencies are hires made where there is no examination available either through the Commission or through the Boards of Examiners. The Commission would examine under this program for about 40,000 appointments.

Mr. THOMAS. That is your figure of 142 employees, supervising Civil Service Board Examiners?

Mr. MACY. The Boards themselves would examine for a total number of appointments of 228,000.

Mr. THOMAS. Let me put it in another way. You have 203 employees for conducting examinations. If all the personnel hired by the agencies were to take these examinations, this figure here would be 800 or 900 rather than 203, would it not?

Mr. MACY. It would be a substantially larger figure if the Commission were doing the examining for all 268,700 that are listed over here on page 14.

The staff of 203 is concerned with conducting examinations that will lead to the appointment of 40,000 people for whom the Commission conducts the examinations with its own resources.

Mr. THOMAS. Do you give examinations for all this 268,700?

Mr. MACY. Yes, sir. These are examinations that are conducted either by the Commission or by the Boards of Examiners. The Commission itself will conduct examinations for approximately 40,000 of this total.

Mr. THOMAS. Of the 268,700?

Mr. MACY. Yes. Two hundred and twenty-eight thousand will be examinations conducted by——

Mr. THOMAS. That is what I say.

Mr. MACY. This says new hires made by the Commission and its Boards of Examiners. We can break this out and insert it in the record if that would be helpful to you, showing that the Commission——

Mr. THOMAS. How many employees will the agencies replace themselves in the fiscal year? What is your estimate for next year?

Mr. MACY. That is this figure of 347,600 at the top of page 14. That is the estimated number of new hires by all agencies under the civil service system in 1964.

Mr. THOMAS. What part of that will they handle themselves?

Mr. MACY. They will handle themselves through a Board of Examiners, supervised by the Commission, approximately 228,000; 40,000——

Mr. THOMAS. You do not have to grade papers and issue examinations for that 240,000?

Mr. MACY. No; we set standards, we supervise, we assure that they are operating in accordance with the Commission's requirements.

Mr. THOMAS. That being true, why cannot this appropriation here be cut in half? You rely upon the agencies to hire under some degree of supervision by the Civil Service Commission, but the onus and burden is on the agency of at least three-fourths of your total replacements for any fiscal year.

Mr. MACY. Two-thirds of the examinations will be conducted by boards of examiners in the agencies.

Mr. THOMAS. If they place two-thirds of them, why can they not place 99 percent or 98 percent under your supervision and do away with all this?

Mr. MACY. Because there are a number of examinations that are applicable to a variety of agencies where it is more economical and appropriate for the Commission to do the examining for the entire Government. The examinations conducted by the boards of examiners are those that are applicable to a particular installation or activity, positions that are unique to that organization.

EXAMINATION FUNCTIONS

Mr. THOMAS. These cost figures here are interesting. Put pages 15, 16, and 17 in the record.

(The pages referred to follow:)

Conducting examinations

	1962	1963	1964
Average positions	220	217	203
Cost	$1,371,005	$1,338,700	$1,297,200
Applications processed	488,342	484,500	493,800
Unit cost	($3.02)	($2.87)	$2.63

This function covers the work of (1) announcing examinations; (2) receiving applications; (3) scheduling and conducting written tests; and (4) all work involved in the review of applications and assignment of ratings to them for examinations conducted on both a competitive and noncompetitive basis.

Excluding effect of pay raise, funds requested for this function in fiscal year 1964 reflect the downward adjustment of $90,300 from that initially programed for 1963, due to expected completion of the extra Presidential postmaster workload in 1963. Increased production and decreased unit cost result from processing of a larger proportion of relatively inexpensive fourth-class postmaster and rural carrier cases, which are expected to accumulate in 1963 because of emphasis placed on completion of the extra Presidential postmaster workload.

Maintaining examination records

	1962	1963	1964
Average positions	83	83	81
Cost	$420,889	$425,900	$418,400

This item covers the work of (1) establishing lists of eligibles from Commission examinations; (2) making additions to lists as required; (3) maintaining the central index files; and (4) keeping up to date necessary information regarding all persons on the eligible lists. This work is dependent upon the number of applications processed by Commission offices and the condition of the eligible lists.

Referring qualified candidates

	1962	1963	1964
Average positions	98	94	90
Cost	$557,987	$531,700	$536,000
Names certified	373,837	357,700	357,100
Unit cost	($1.60)	($1.54)	$1.50

This function includes (1) receiving and controlling requests from appointing officers for lists of eligibles; (2) issuing certificates in response to these requests and (3) reviewing agency action on them to make sure that selections are made in accordance with applicable regulations. A reduction from 1962 expenditures is anticipated for 1963. Other than the downward adjustment required because of the decreased postmaster examinations, and the increase caused by the pay raise, no further change is anticipated in this function between 1963 and 1964.

Supervising Civil Service boards of examiners

	1962	1963	1964
Average positions	134	142	142
Cost	$1,015,008	$1,149,200	$1,185,800

This item covers the work which the Commission performs in training members of boards of examiners, reviewing their operations, and performing such services for them as distributing nationwide announcements, machine scoring written tests, and providing qualification standards for positions under their examining jurisdiction.

Boards of civil service examiners are established by agreement between the agencies concerned and the Civil Service Commission, and the Commission considers them an extension of its own examining organization. These boards, located in the larger departments and agencies, are responsible to the Commission for the work they do, since the Civil Service Act, which authorizes such boards, requires that the Commission retain control over their operations. Members of these boards are agency personnel usually performing board work on a part-time basis. However, they operate under the direction and control of the Commission and are trained and supervised by Commission employees to carry out the recruiting and examining work needed by their agencies.

Funds requested for this function are used to organize new boards and train new board members and, through regular visits, to check closely on the operations of all boards. Commission personnel give positive leadership to boards on a wide variety of day-to-day problems, such as how to plan their examining program, how to apply qualification standards to individual applications, and how to perform the multitude of duties connected with the processing of applications. Without this leadership and help by Commission personnel the board program could not exist.

In addition to the boards of examiners as discussed above, there are over 1,000 examination points in post offices throughout the country. The Commission is responsible for directing, supervising, and servicing their operations. These examination points offer a primary means of publicizing examinations and distributing application forms, and provide accessible locations for conducting written tests.

In recent years, the activity level of boards of examiners has increased substantially. Their application workload, for example, increased from approximately 1,390,000 in fiscal year 1961 to 1,590,000 in fiscal year 1962. At the same time, many of them have moved into the types of examining techniques that are more sophisticated and more complex and, consequently, more demanding in terms of the kind and amount of assistance and supervision required of the Commission's staff.

During fiscal year 1962, funds were shifted from this function to meet pressing recruitment needs and application workloads. As a result, funds were not available to maintain a normal, or adequate, program of supervision and control of this function. Funds programed in 1963, and requested for 1964, represent restoration of these resources to provide a minimally adequate program.

Investigation of Character and Fitness for Employment

Mr. Thomas. Let us take up activity 2, investigations. Put pages 23, 24, 25, 26, 27, and 28 in the record.

(The pages follow:)

Activity 2.—*Investigation of character and fitness for employment*

Functions	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Conducting national agency check and inquiry cases (N.A.C. & I.)	279	$1,477,016 (1,590,500)	272	$1,358,600 (1,404,200)	272	$1,404,200
Investigating and evaluating suitability cases resulting from N.A.C. & I.	46	363,112 (391,000)	37	298,200 (308,200)	37	308,200
Investigating and evaluating suitability cases resulting from employment applications and arrest records:						
Personally investigated cases	31	235,399 (253,500)	23	172,100 (177,800)	23	177,800
Cases investigated on basis of record and correspondence	30	198,903 (214,200)	28	192,700 (199,200)	28	199,200
Investigating veteran and nonveteran appeal cases	9	69,441 (74,800)	12	94,300 (97,400)	12	97,400
Investigating postmaster candidates	18	144,567 (155,700)	30	237,900 (245,900)	15	120,300
Investigating qualifications of candidates for high-level positions	5	36,977 (39,800)	5	36,100 (37,400)	5	37,400
Operating civil service investigative files	92	478,225 (515,000)	93	485,100 (501,500)	93	501,500
Evaluating agencies' security programs	3	33,468 (36,000)	2	26,400 (27,000)	2	27,000
Total, activity 2	513	3,037,108 (3,270,500)	502	[1] 2,901,400 (2,998,600)	487	2,873,000

[1] Includes anticipated supplemental appropriation of $85,400 for part of pay increase costs.

Note.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

Workload and Unit Costs

Activity 2.—*Investigation of character and fitness for employment*

Workloads	Fiscal year	On hand	Received	Processed	Canceled or converted	Remaining	Unit cost	
							Actual	Adjusted [1]
Conducting national agency check and inquiry cases (N.A.C. & I.)	1962	45,794	317,000	306,653	7,437	48,704	$4.82	$5.19
	1963	48,704	317,000	309,400	7,600	48,704	4.39	4.54
	1964	48,704	317,000	309,400	7,600	48,704	4.54	----
Investigating and evaluating suitability cases resulting from N.A.C. & I.	1962	1,251	4,899	4,577	965	608	79.30	85.40
	1963	608	4,780	4,000	780	608	74.60	77.00
	1964	608	4,780	4,000	780	608	77.00	----
Investigating and evaluating suitability cases resulting from employment applications and arrest records:								
Personally investigated cases	1962	1,346	1,926	2,655	206	411	88.70	95.50
	1963	411	1,930	1,900	144	297	90.60	93.60
	1964	297	1,930	1,900	30	297	93.60	----
Cases investigated on basis of record and correspondence	1962	3,497	38,905	38,525	1,196	2,681	5.16	5.56
	1963	2,681	38,900	37,730	1,170	2,681	5.11	5.28
	1964	2,681	38,900	37,730	1,170	2,681	5.28	----
Investigating veteran and nonveteran appeal cases	1962	62	902	914	9	41	76.00	81.80
	1963	41	1,350	1,320	----	71	71.40	73.80
	1964	71	1,350	1,320	30	71	73.80	----
Investigating postmaster candidates	1962	15	1,687	1,134	4	564	127.00	137.00
	1963	564	2,100	2,330	24	310	102.00	106.00
	1964	310	1,000	1,140	16	154	106.00	----
Investigating qualifications of candidates for high-level positions	1962	----	----	341	----	----	108.00	117.00
	1963	----	----	340	----	----	106.00	110.00
	1964	----	----	340	----	----	110.00	----
Operating civil service investigative files:								
Searching and filing records	1962	----	----	2,410,235	----	----	.151	.162
	1963	----	----	2,400,000	----	----	.153	.158
	1964	----	----	2,400,000	----	----	.158	----
Releasing files information	1962	----	----	150,625	----	----	.345	.372
	1963	----	----	150,600	----	----	.353	.365
	1964	----	----	150,600	----	----	.365	----

[1] Adjusted to 1964 pay scale 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 checks 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, 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 1962.—During fiscal year 1962 management action was taken which led to noteworthy savings in this activity, and which will continue to produce savings in future years. For example: expenditures during fiscal year 1961 were $3,192,400; in fiscal year 1962, $3,037,100 or a decrease of $155,300 (in addition an increase of 42,500 N.A.C. & I. cases was also financed without additional funds). Further decrease is shown in fiscal years 1963 and 1964. The specific actions taken were:

1. Special attention was given to holding the personal investigations workload to the lowest level possible, consistent with maintaining a quality program. In the two functions "Investigating and evaluating suitability cases resulting from N.A.C. & I." and "Personally investigated cases resulting from employment applications and arrest records" expenditures in fiscal year 1961 amounted to $861,300. In fiscal year 1962 expenditures were reduced to $598,500, a decrease of $262,800, with further decrease estimated for fiscal years 1963 and 1964.

2. Three area centers were established for processing N.A.C. & I. cases, rather than processing them at 11 different geographic locations. This produced some savings in fiscal year 1962, with further savings estimated for fiscal years 1963 and 1964. The 309,400 cases for which $1,404,200 is requested for 1964 would have cost $1,776,000 at the rate experienced during fiscal year 1961.

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 personnel investigations are concerned. In 1962 the Commission made approximately one-half of all such investigations in the Federal service. 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.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table:

	1962, actual		1963, program		1964, estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	223	$1,259,112	202	$1,162,600	202	$1,199,000
		(1,355,900)		(1,199,000)		
Regional offices	290	1,777,996	300	1,738,800	285	1,674,000
		(1,914,600)		(1,799,600)		
Total, activity 2	513	3,037,108	502	[1] 2,901,400	487	2,873,000
		(3,270,500)		(2,998,600)		

[1] Includes anticipated supplemental appropriation of $85,400 for cost of pay raise.

NOTE.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

Mr. THOMAS. In this particular activity you are going to have 487 people this year against 502 for 1963, and against 513 for 1962.

INVESTIGATION FINANCED DIRECTLY AND THROUGH REVOLVING FUND

Turn to page 23. Let us take a look at this. Your big personnel load out of your investigation is conducting national agency checks and inquiries, which you abbreviate to N.A.C. & I. You show 279 people for 1962 and 272 for 1963 and 1964. Is this for the use and the benefit of the Civil Service Commission exclusively or is it for all other agencies excluding the Civil Service Commission?

Mr. MACY. This is for all agencies as a requirement under Executive order that there be at least a national agency check on every employee entering the Federal service.

Mr. THOMAS. What part of this 279 is appropriated for out of your funds and what part of it comes out of the revolving fund?

Mr. MACY. This is all out of our funds. The revolving fund operations are separate from what is presented here in activity 2.

Mr. THOMAS. You are sure this is all your funds?

Mr. MACY. These are all our funds.

Mr. THOMAS. Why should it be if it covers all other agencies? Why does this not come out of the revolving fund?

Mr. MACY. The revolving fund was set up only to finance full field investigations.

Mr. THOMAS. This is purely routine?

Mr. MACY. This is routine, mass production investigations. These are all nonsensitive and cover the entire Federal service.

Mr. THOMAS. You get no reimbursement for this whatsoever?

Mr. MACY. That is correct.

Mr. THOMAS. Is that a matter of law?

Mr. MACY. No. This has been financed in this fashion because it is believed to be a part of the Commission's responsibility with respect to the review of applicants.

Mr. THOMAS. You have no legislative authority for this?

Mr. MACY. Executive Order 10450 and the Civil Service Act. The Civil Service Act itself calls for us not only to examine for qualifications but also suitability or fitness. This is a part of the fulfillment of that requirement.

Mr. THOMAS. Why could you not pay for the whole investigation activity of the other agencies?

Mr. MACY. We have unit costs on this. What you are suggesting is we charge them $4.54 a case for this particular service? Is that what you have in mind?

Mr. THOMAS. Is any part of this money reimbursed to you?

Mr. MACY. No, sir.

Mr. THOMAS. Why should not they reimburse you for it?

Mr. MACY. I would argue that this is an appropriate function——

Mr. THOMAS. They reimburse you for the larger cases. Why should they not reimburse you for this one? You are doing their work. This is not exclusively your work. What part of this is your work?

Mr. MACY. A very small percentage of these cases would involve individuals to be employed in the Civil Service Commission. This has been viewed as a part of the Commission's responsibility in as-

suring that appropriately suitable persons entered the Federal service.

Mr. THOMAS. It is your responsibility up to a certain point, and beyond a certain point the agencies pay you. That does not make sense.

Mr. MACY. The agencies pay us for programs based upon sensitive positions which require a complete investigation in advance of appointment.

Mr. THOMAS. You are saying you pay the bill where a man gets drunk once a week and if he gets drunk three times a week, the agency that is looking him over pays for it.

Mr. MACY. No. It depends upon the nature of the position. If the position is one that has an extensive exposure to national security, it is a sensitive position, and the Executive order requires that there be a full field investigation of the individual in advance of employment. On the other hand, if the position is nonsensitive, the extent of the advance review is the national agency check and inquiry To review all of the intelligence and police records concerning the individual and to check his past employment. If we find in the course of that operation there is some seriously derogatory information, it is then converted——

Mr. THOMAS. We understand that. We are talking about a question of accounting here.

Mr. MACY. I hate to argue against your making it possible for the Commission to charge for it.

Mr. THOMAS. We are not arguing, just throwing it out to see what you think about it.

Mr. MACY. I would be only too happy to have this.

Mr. THOMAS. 272 employees are virtually doing the work of not your own agency, investigating, evaluating suitability cases. The same thing applies to the 37 people investigating and evaluating suitability cases resulting from the National Agency checks.

Mr. MACY. Yes.

Mr. THOMAS. Investigating, evaluating suitability cases resulting from employment applications after arrest. That is the same thing.

Mr. MACY. Yes.

Mr. THOMAS. Personally investigated cases, that is the same thing.

Mr. MACY. Correct.

Mr. THOMAS. Cases investigated on the basis of record and correspondence, the same thing.

Mr. MACY. Yes.

Mr. THOMAS. Investigating nonveterans' appeal cases, the same thing.

Mr. MACY. No. There we depart from it. This is the investigation of appeals filed by veterans and nonveterans to adverse actions taken by the agencies against them.

Mr. THOMAS. That covers everybody except your own employees, though?

Mr. MACY. This covers any employee who files such an appeal.

Mr. THOMAS. In the same classification of the other items we just mentioned.

Mr. MACY. In terms that it relates to employees generally.

Mr. THOMAS. Investigating postmaster candidates.

Mr. MACY. This is a part of the examining process for postmasters, a very sensitive examining process.

Mr. THOMAS. That is for the Post Office Department?

Mr. MACY. Yes.

Mr. THOMAS. Investigating qualifications of candidates for high level positions. This is all for other agencies other than yours.

Mr. MACY. Yes.

Mr. THOMAS. Operating civil service investigative files.

Mr. MACY. That is in support of the rest of the activity. This is their basic tool in making these investigations.

Mr. THOMAS. This covers everybody except yours, or including yours?

Mr. MACY. Including ours.

Mr. THOMAS. Evaluating agencies' security programs.

Mr. MACY. This is a responsibility assigned by the President to the Commission to appraise the conduct of security programs in all agencies.

Mr. EVINS. They do not call on you to investigate many candidates for high level positions if you only employ five people.

Mr. MACY. This is a judgment we make with respect to certain high level positions. We then add this as an additional feature to acquire more information on which to rate the individual.

FBI INVESTIGATIONS

Mr. EVINS. Does the FBI move in your field, your jurisdiction in this area? In the high level positions, do they turn it over to the FBI?

Mr. MACY. Yes. Presidential appointees are all investigated by the FBI.

Mr. EVINS. Civil Service is not called upon to investigate any Presidential appointees?

Mr. IRONS. The high level appointees are all Presidential.

Mr. MACY. These are all top career positions below Presidential appointees.

Mr. EVINS. You do not have too many if you just employ five people.

Mr. MACY. This is a relatively limited activity. Most high level positions in the career service are filled by promotion from within.

Mr. EVINS. And they have already had investigation.

Mr. MACY. Yes. They have been investigated previously.

Mr. EVINS. How many people do you know that the FBI uses in this investigative work?

Mr. MACY. We do not have that figure.

Mr. IRONS. They fit it in with their regular investigative program. They do not segregate it for accounting purposes.

Mr. MACY. We do refer to the FBI any case that we investigate where we find some information reflecting on the loyalty of the individual. The case is then turned over to the FBI, and they conduct a full field investigation. This is relating to our revolving fund activity and the work we do for the international agencies.

OPERATION OF THE INVESTIGATIONS REVOLVING FUND

Mr. OSTERTAG. That is what I would like to have cleared up. This revolving fund is a fund wherein the agencies reimburse you and it goes into this fund and then you continue to use that to pay the expenses?

Mr. MACY. That is correct.

Mr. OSTERTAG. In other words, it is a continuing fund. How is that kept in balance so that it really serves the purpose?

Mr. MACY. An initial appropriation was made when it was set up. The Commission determines the cost of conducting these examinations on a unit basis. You will note on page 170 that in 1962 it cost $351, in 1963, $364. We are estimating $377. We charge the agency——

Mr. OSTERTAG. This is per case?

Mr. MACY. Per case. We charge the agency at that rate. We receive sufficient funds through the transfers from the agencies to sustain the level of the revolving fund.

Mr. OSTERTAG. The agency is required to budget for it or contemplate this cost?

Mr. MACY. Yes.

Mr. OSTERTAG. In their respective budgets?

Mr. MACY. Yes.

Mr. OSTERTAG. How do the agencies know what your rate is going to be? Do they have such costs ahead of time?

Mr. MACY. We give them a forecast. It has been running in the neighborhood of $350 to $375 for a number of years. Under this program we conduct a very substantial number of investigations each year. As I recall, last year it was about 40,000. Nearly half of that, 19,500, were for the Atomic Energy Commission for employees of their contractors.

Another large user was NASA. NASA proposes 6,100 such investigations this year.

We have a long list, which covers a full page here, of the other agencies, their estimate of the number of cases they will require us to handle in 1963 and 1964. I would be happy to add this to the record.

PERSONNEL ENGAGED IN INVESTIGATIVE WORK

Mr. EVINS. Your total investigative workload is up, but the number of personnel required to do the work is slightly down.

Mr. MACY. This is true in activity No. 2, the work we perform under our regular program. This is due to the fact that——

Mr. OSTERTAG. This is exclusive of the revolving fund or the reimbursable program?

Mr. MACY. Correct. This is nonreimbursable investigative program. So that the 487 individuals that we estimate will be necessary to staff activity 2 in 1964 must be increased by the number that is necessary in order to conduct the reimbursable program, in order to get the total strength in investigations. Our estimate is designed to support the work to be assigned by the agencies. We will have to have the revolving fund activity staffed to the extent of 1,535 people.

You see, this is a very substantial portion of the Commission's total business. Nearly 2,000 of our roughly 4,000 employees are engaged in the investigative business.

Mr. OSTERTAG. Is this reflected in this budget?

Mr. MACY. The 1,535 are reported on page 170, relating to the revolving fund.

Mr. OSTERTAG. I know, but a revolving fund is money that is not budgeted.

Mr. MACY. There is no appropriation for it.

INSPECTIONS AND CLASSIFICATION AUDITS

Mr. EVINS. If there are no further questions, we will turn to activity 3. Mr. Reporter, place in the record the chart on page 41, and pages 42, 43, and 44.

The pages referred to follow:

ACTIVITY 3.—*Inspections and classification audits*

Functions	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Inspecting agency personnal operations	231	$2,029,353 (2,206,000)	242	$2,171,900 (2,255,700)	242	$2,255,700
Administering the career development, training, and incentive award programs	24	235,426 (255,900)	33	341,200 (354,300)	33	354,300
Total, activity 3	255	2,264,779 (2,461,900)	275	[1] 2,513,100 (2,610,000)	275	2,610,000

[1] Includes anticipated supplemental of $82,000 for part of pay increase costs.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table.

Functions	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	95	$898,855 (977,098)	101	$977,200 (1,014,880)	101	$1,018,400
Regional offices	160	1,365,924 (1,484,802)	174	1,535,900 (1,595,120)	174	1,591,600
Total, activity 3	255	2,264,779 (2,461,900)	275	[1] 2,513,100 (2,610,000)	275	2,610,000

[1] Includes anticipated supplemental of $82,000 for part of pay increase costs.

NOTE.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

GENERAL STATEMENT

This activity includes the following principal functions: (1) Inspecting to determine the extent of agency compliance with statutory and regulatory provisions, and ordering corrective action in cases of noncompliance; (2) evaluating agency personnel management to assure that it is assisting in the accomplishment of agency mission; (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; (4) administering the Government-wide career development, training, and incentive award programs; and (5) classifying 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 and for increased training of agency personnel. For example, there has grown an increasing demand for the Commission to discharge more effectively its responsibilities for the improvement and coordination of Federal training programs as prescribed in the Government Employees Training Act, and to improve career development programs. The Commission's response to these requests is designed to assure that personnel operations are carried out effectively and efficiently.

Beginning with the middle of fiscal year 1962, the Commission has 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. The promotion and coordination of the joint use on an interagency basis of common training resources to achieve the improvements and economies contemplated by the Congress in training legislation have been emphasized. A staff member in each regional office was assigned during fiscal year 1962 to career development and training activities, requiring increased amounts for that function for fiscal years 1963 and 1964.

So as to be able to accommodate to the changes in program emphasis mentioned above, and to establish an organization able to accomplish this mission more effectively, the Commission reorganized the structure of its regional offices during fiscal year 1962 by (1) combining the separate functions of examining and inspection into a single integrated Personnel Management Division, (2) establishing Civil Service representative stations in 59 locations outside the cities where regional headquarters are located, and (3) assigning an employee development officer in each region to coordinate career development and training activities. In order to accomplish this reorganization effectively, within a relatively short period of time, and to provide for the urgent training and cross-training required for Civil Service representatives and regional technical staff, the Commission had to cut back temporarily on some of its major program goals, particularly in the area of inspections.

With the start of fiscal year 1963, the reorganization and the training of technical staff were nearing completion. For fiscal year 1963 an effort has been made to restore the inspection activity to as normal a level as possible, at the same time providing for the added programs mentioned above, which also are to be emphasized. In order to effectively carry out responsibilities assigned to it by Congress and the President, the Commission has necessarily programed more funds for this activity during fiscal year 1963 than were expended during 1962, with a continuing level of operations being projected for fiscal year 1964. More detailed explanation of the need for these funds is contained in subsequent paragraphs.

Mr. EVINS. This is inspections and classification audits. In 1963, you have 275 employees. You are requesting the same, 275, for the next year. The appropriation is the same. No change there.

Mr. MACY. No change at all.

You will note that in these tables, as in the previous ones, we have included in parentheses what the amount would have been in 1962 and in 1963 in the event the same salary levels existed as will exist in 1964.

Mr. BOLAND. Who is the Director of this activity?

Mr. MACY. This is headed by Mr. Seymour Berlin, who has directed the Bureau of Inspections for the past 18 months. You will notice a significant portion of this work is carried out in the regional offices. Staffs for this activity operate under the direction of our regional directors and work with the agency headquarters and installations in the field.

Administration of the Retirement Systems

Mr. Evins. We shall turn to activity 4, "Administration of the retirement systems." Mr. Reporter insert pages 50, 51, 52, and 53 in the record.

(The pages referred to follow:)

Activity 4.—*Administration of the retirement systems*

Functions	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Adjudicating annuity and death claims	109	$659,963 (710,700)	113	$705,500 (728,300)	106	$693,200
Adjudicating refund claims	23	119,770 (129,000)	23	124,600 (128,700)	23	127,700
Adjudicating claims for deposit	14	75,636 (81,400)	14	75,900 (78,400)	13	74,200
Answering inquiries	48	280,542 (302,100)	47	289,200 (298,500)	46	292,500
Maintaining the monthly benefit payment roll	41	204,177 (219,900)	65	432,900 (444,100)	69	379,400
Accounting for retirement fund transactions	30	166,097 (178,900)	30	173,800 (179,400)	30	179,400
Maintaining files of retirement records	51	208,146 (224,100)	50	211,300 (218,100)	50	216,900
Conducting actuarial and statistical studies	12	87,718 (94,500)	12	91,600 (94,400)	14	113,500
Performing medical work	62	473,132 (510,600)	60	486,800 (503,200)	60	503,200
Total, activity 4	390	2,275,181 (2,451,200)	414	[1] 2,591,600 (2,673,100)	411	2,580,000

[1] Includes anticipated supplemental appropriation of $77,500 for cost of part of pay raise.

Note.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

Summary workload table

Workloads	Fiscal year	On hand	Received	Processed	Canceled	Remaining	Unit cost	
Annuity and death claims	1962	10,089	95,984	95,231	638	10,204	$6.93	($7.46)*
	1963	10,204	99,800	100,300	504	9,200	7.03	(7.26)*
	1964	9,200	96,000	95,500	500	9,200	7.26	
Refund claims	1962	1,865	145,387	143,960	----------	3,292	$.83	(.90)*
	1963	3,292	145,400	146,492	----------	2,200	.85	(.88)*
	1964	2,200	145,400	145,400	----------	2,200	.88	
Claims for deposit	1962	1,847	27,620	26,256	1,560	1,651	$2.88	($3.10)*
	1963	1,651	25,300	24,400	1,251	1,300	3.11	(3.21)*
	1964	1,300	24,300	23,100	1,200	1,300	3.21	
Inquiries	1962	2,834	240,144	239,235	541	3,202	$1.17	($1.26)*
	1963	3,202	241,000	240,800	602	2,800	1.20	(1.24)*
	1964	2,800	237,300	236,700	600	2,800	1.24	
Monthly benefit payment roll.	1962	----------	----------	582,960	----------	----------	$.35	(.38)*
	1963	----------	----------	627,300	----------	----------	.69	(.71)*
	1964	----------	----------	671,700	----------	----------	.56	

*Adjusted to reflect 1964 pay rates for comparability.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table:

	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	365	$2,070,562 ($2,229,800)	391	$2,385,000 ($2,459,100)	388	$2,366,000
Regional offices	25	204,619 ($221,400)	23	206,600 ($214,000)	23	214,000
Total, activity 4	390	2,275,181 ($2,451,200)	414	[1] 2,591,600 ($2,673,100)	411	2,580,000

[1] Includes anticipated supplemental appropriation of $77,500 for cost of part of pay raise.

NOTE.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

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 funds; (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 1964 exclusive of pay increase costs represent a net reduction of $6,000 from the amount originally programed in fiscal year 1963 resulting from (*a*) a reduced need of $45,100 based on a decreased workload largely offset by (*b*) additional needs of $39,100.

The additional requirements which must be met are (1) $21,100 to provide for the normal increase in the number of annuitants on the rolls, and (2) $18,000 to provide for conducting a quinquennial valuation of the retirement fund as required by the Civil Service Retirement Act.

Mr. EVINS. You had 414 employees in this work in 1963, and you are asking for 411 for next year, a slight reduction in personnel and also a reduction in comparative cost. Do you wish to make any further statement on this, Mr. Chairman?

Mr. MACY. I do not believe so. I believe the text covers this program. This is a continuation of the activity in the retirement field based upon the existing statutes and the maintenance of the retirement roll. This is growing moderately each year.

NUMBER OF DOCTORS ON STAFF

Mr. THOMAS. How many doctors have you at the Commission? You used to have 12. I remember when we had to search around 7 or 8 years ago to figure out how many doctors. How many do you have now? You had 12 over there then.

(Off the record.)

Mr. MACY. We have 17 doctors at present: 10 in the regional offices, 1 in each region, and 7 on the staff in Washington.

DISABILITY RETIREMENTS

Mr. THOMAS. How many people are retiring with disability?

Mr. MACY. The actual number of actions that were processed for disability retirement in 1962, 29,529. We estimate that in 1963 and 1964 we will process 43,900 actions under the disability retirement program.

Mr. BOLAND. With respect to the 29,529 you processed in 1962, how many actually retired on disability?

Mr. IRONS. That is a totally different question. This is the number of actions.

Mr. MACY. This is the number we acted on. Have we the precise number who were retired on disability?

Mr. IRONS. 33⅓ percent.

Mr. THOMAS. Give us the accurate figures on that.

Mr. IRONS. During fiscal year ended June 30, 1962, there were 16,737 disability claims out of a grand total of 50,524 employee annuitants added to the rolls—33.1 percent of the total number of additions to the rolls.

Mr. MACY. It has been running about that percentage; has it not?

Mr. IRONS. Yes.

Mr. THOMAS. What is the total number processed last year?

Mr. IRONS. The total number of annuity claims processed was 59,906. In addition 35,325 death claims were processed.

TOTAL RETIREMENTS

Mr. MACY. The 671,000 is the average number on the roll, who are paid monthly from the retirement fund.

Mr. OSTERTAG. That is your total, overall employees under the retirement operation?

Mr. MACY. Yes; former employees and survivors covered by the plan. This is the number.

Mr. THOMAS. How many do you have retiring in 1963 and 1964? That has been going up very rapidly for the last 3 years on account of favorable legislation passed 2½ years ago.

Mr. MACY. In 1962, there were 50,000.

Mr. THOMAS. Where is that table?

Mr. MACY. I believe that is outside of the budget presentation. We can give you that figure and the breakdown by categories.

Mr. THOMAS. We ought to have that. Read it into the record.

Mr. MACY. Yes. The total number of retirements——

Mr. THOMAS. Let us go back 5 years and see the effect of that legislation.

Mr. MACY. Do you have that?

Mr. IRONS. I would be very glad to introduce in the record the total report of employee annuitants added to the rolls from the beginning of the act to date. I have it here.

Mr. THOMAS. Let us go back 5 years.

Mr. IRONS. Five years from 1962 would be 1957. All right. In 1957, 44,296; 1958, 51,840; 1959, 44,514; 1960, 45,161; 1961, 50,228.

Mr. THOMAS. When was the liberalizing act passed?

Mr. IRONS. 1956.

Mr. THOMAS. No; it is more recent than that.

Mr. IRONS. You are thinking of annuitants on the rolls. The big difference in annuitants added to the rolls came between 1956 and 1957. In 1956, there were 33,000 people retired. That is the year the act passed. The next year, 44,000, a big jump that year. It has stayed up ever since.

Mr. RUDDOCK. The liberalized act was in effect only from October 1, 1956.

Mr. THOMAS. Go ahead.

Mr. IRONS. 1962, 50,524.

Mr. THOMAS. Is it going up or down now?

Mr. IRONS. In 1961 and 1962, they are relatively about the same.

Mr. THOMAS. The total is around 50,000, in round figures.

Mr. IRONS. Yes.

Mr. THOMAS. Break that figure down.

CATEGORIES OF RETIREES

Mr. IRONS. We had 52 retire for mandatory retirement at age 62.

Mr. THOMAS. Wait a minute.

Mr. IRONS. Yes; mandatorily retired at age 62. They were required to retire.

Mr. THOMAS. Why? What is the basis of that?

Mr. RUDDOCK. These would be people employed either in the Canal Zone or in Alaska who have had at least 15 years of service, either in the tropics or in Alaska.

Mr. THOMAS. Outside the continental United States. Go ahead.

Mr. IRONS. 4,075 retired at age 70 mandatorily.

Mr. THOMAS. That is mandatory.

Mr. IRONS. Yes; 4,075. They die off. Sixteen thousand seven hundred and thirty-seven for disability.

Mr. EVINS. That is the big one.

Mr. IRONS. 2,980 retired after age 55 with at least 30 years of service.

Mr. THOMAS. With a reduction in annuity?

Mr. IRONS. With a reduction in annuity. Six thousand seven hundred and eighty retired because they had acquired age 60 and at least 30 years of service.

Mr. THOMAS. That is the benefit of the recent act.

(Off the record.)

Mr. IRONS. 12,093 retired because they had reached age 62 and had somewhere between 12 and 29 years of service. Three hundred and sixty-nine retired at age 50 with at least 20 years of service. That meant they were involuntarily——

Mr. THOMAS. Your biggest category is those retired with disability.

Mr. IRONS. The single biggest category is disability.

REQUIREMENTS FOR DISABILITY RETIREMENT

Mr. THOMAS. What is the nature of the disability and what are the requirements for retirement with disability?

Mr. RUDDOCK. The definition of total disability in the Retirement Act is "total disability for useful and efficient service in the grade or class of position occupied."

Mr. THOMAS. Do they retire only under one category, and that is total and permanent disability?

Mr. RUDDOCK. Not necessarily permanent, sir, but it must be total disability. There must be a demonstration that the person has a disease or injury which renders him incapable of performing his job in a useful, efficient, and safe manner.

Mr. THOMAS. You retire, then, for occupational trouble, is that it?

Mr. RUDDOCK. The disability need not be caused by his employment. It must interfere with his performance of duties, but it could arise from any cause.

Mr. THOMAS. You can retire either by virtue of a disease, occupational or otherwise, or an injury?

Mr. RUDDOCK. Yes.

Mr. THOMAS. Our disability retirement is very liberal, then, is it not?

COMPENSATION UNDER FEDERAL EMPLOYEES COMPENSATION ACT AND CIVIL SERVICE RETIREMENT

Mr. RUDDOCK. Yes. Where the disability is the result of employment, for example, a job injury or a job-incurred illness—a nurse acquiring tuberculosis, for example, in a hospital—normally these people receive their benefits under the Federal Employees Compensation Act rather than under the Retirement Act. They have a choice. They cannot get both.

Mr. THOMAS. Which is the more liberal?

Mr. RUDDOCK. The Compensation Act, by far. It does not relate the benefit to the length of service of the individual. It relates it only to his salary and the degree of his disability.

Mr. BOLAND. Do you make a determination of whether or not the employee should retire under the Federal Employees Compensation Act?

Mr. RUDDOCK. No, sir. That is done by the Department of Labor.

Mr. BOLAND. How many applications for retirement under the Federal Employees Compensation Act would there be?

Mr. RUDDOCK. Actually, the individual does not apply to retire under that act. He applies for compensation. If they determine that he is unable to work because of a job-incurred condition or injury, then they pay him compensation. It is not considered as a retirement.

Mr. BOLAND. Do a great number of Federal employees who are about to reach age 70 make this effort to retire on compensation rather than on the basis of civil service retirement? Is there a number of Federal employees who do apply for disability compensation, attempting to prove that the disability was caused by the job itself?

Mr. RUDDOCK. I do not know the answer to that. They would have to demonstrate the proximate cause of the disability.

Mr. BOLAND. They would get more money under the Federal Employees Compensation Act than under civil service?

Mr. MACY. They would have clearly to demonstrate the job connection.

Mr. BOLAND. It must be a service-connected disability?

Mr. MACY. That is correct.

Mr. RUDDOCK. It is Federal employees' workmen's compensation in the ordinary sense.

Mr. THOMAS. It is not compensation, though, when they retire under the Civil Service Act for disability. Don't you pay higher annuities for disability?

Mr. RUDDOCK. Only in this respect: The law provides a minimum disability annuity. In other words, he gets either the annuity which he has earned by his length of service and his salary, or he may receive 40 percent of his average salary, provided that figure does not exceed the annuity he would have earned if he had continued working until age 60.

Mr. THOMAS. What if he retires under disability under the civil service retirement, he does not get the full amount of his retirement as it would be if he finished out his service?

Mr. RUDDOCK. No, because normally he would have less service.

Mr. EVINS. The question I want to ask is, how many apply for disability retirement who do not receive it or are not awarded it?

Mr. RUDDOCK. That is approximately 5 percent.

Mr. THOMAS. Out of the 16,000, you mean 15,000 received it?

Mr. RUDDOCK. No.

Mr. IRONS. Five percent more than this number would apply and be rejected.

Mr. RUDDOCK. Most people reach the decision to apply for disability retirement rather reluctantly.

Mr. THOMAS. There is no percentage in it.

Mr. RUDDOCK. No.

Mr. THOMAS. What number of that 16,000 applicants did you grant?

Mr. MACY. That is the number we granted.

Mr. EVINS. They granted 95 percent of the applicants.

Mr. MACY. We rejected something less than 1,000.

Mr. THOMAS. Let us get some lunch and come back at 1:30, gentlemen.

(The subcommittee recessed at 12:30 p.m.)

AFTERNOON SESSION

Mr. THOMAS. Let us come to order, gentlemen.

ABSORPTION OF PAY INCREASES

Mr. EVINS. Earlier this morning, Mr. Chairman, you indicated that your budget would be less for next year except for the automatic increases required as passed by Congress.

Mr. MACY. That is correct. The total increase in dollars requested in the salaries and expenses apropriation is to cover the increase in salary rates required by Public Law 87–793.

Mr. EVINS. That is how much?

Mr. MACY. That comes to $237,000.

Mr. EVINS. Can you not absorb that?

Mr. MACY. We are planning to absorb in fiscal year 1964 a total of $366,000.

Mr. EVINS. We discussed most of these categories under Administration of the Retirement Systems. Do you have anything further under this, Mr. Chairman?

DEVELOPING PROGRAMS AND STANDARDS

Mr. EVINS. Let us turn to Activity No. 5, Developing Programs and Standards. This is a sort of brain trust idea or group. You have 159 employees in 1963, and ask for 159 next year, with no increase in funds. You are not planning on any new ideas? You have them all pretty well formulated?

Mr. MACY. I would not exactly state it that way. Our belief is that with the staff we have in these activities, we can sustain the Commission's responsibility in the development of new programs, the maintenance of our directives and instructions, in the establishment of standards, qualifications and classification and in the development of tests and measures for our examining activities.

Mr. EVINS. Mr. Reporter, place the chart on page 62 and the text on page 63 in the record.

(The material referred to follows:)

ACTIVITY 5.—*Developing programs and standards*

Functions	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Providing leadership and guidance in strengthening the Federal personnel programs.	35	$328,648 (360,000)	35	$339,000 (353,100)	35	$353,100
Maintaining the Commission's system of directives and instructions.	41	364,295 (399,100)	35	333,300 (347,200)	35	347,200
Establishing and maintaining standards	44	414,835 (454,500)	44	429,600 (447,500)	44	447,500
Providing selection methods and tests to measure qualifications.	44	338,669 (371,000)	45	367,900 (383,200)	45	383,200
Total, activity 5	164	1,446,447 (1,584,600)	159	[1] 1,469,800 (1,531,000)	159	1,531,000

[1] Includes anticipated supplemental appropriation of $53,000 for part of pay increase costs.

NOTE.—Figures in parentheses are adjusted to reflect 1964 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 programs so that the Civil Service Commission can respond to the 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 Goverment-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) conducting studies and prescribing 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 the Commission work in improving governmental 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.

The requirements for this activity in fiscal year 1964 are based on continuing all functions at approximately the same level as programed in 1963. This represents a decrease of five positions from the 1962 level, achieved by better manpower utilization.

Mr. EVINS. What are these special projects?

Mr. MACY. As indicated at the bottom of page 67, we have a number of special projects that are handled by this particular staff. I think you will note that we have recited particularly the development of a program for forecasting Government manpower requirements by occupational groups. This is a need that has been felt for some time, but it is particularly acute now in view of the Government's need for scarce skills in science, engineering, medicine, and other technology.

A second project is one of working with the agencies in the development of systems for a greater degree of mobility within the career service, so individuals with the best skills are available for assignment in one agency or another. This also relates to our objective of improving manpower utilization in the Federal Government so we get a maximum return on the individuals who are employed.

There are other projects listed on page 68, but I think these two are representative of the type of continuing work that falls under the category of special projects.

Mr. EVINS. Are there any questions on developing programs and standards?

Mr. BOLAND. I do not know that you have any results yet, but is this study on automation and its effect on personnel continuing?

Mr. MACY. This is going on. We work very closely, particularly with the Internal Revenue Service, on modifications in the personnel system to make it possible for the Federal Government to take advantage of automation and improved technology with the minimum adverse effect on the employees. This will be continuing as new automated systems are installed in the Federal Government.

Mr. BOLAND. Do you expect this to decrease the personnel requirements?

Mr. MACY. The experience has been that in most of the programs where automation has been installed, it has made it possible for the agency to take on an increasing workload without increasing personnel to the same extent, so automation picks up the added workload. There will be some dislocations, however, and our desire there is to anticipate them as much as possible in advance so plans will be in process to retrain and reassign the personnel who may become surplus.

APPELLATE FUNCTIONS OF THE COMMISSION

Mr. EVINS. Mr. Reporter, put pages 82, 83, 84, 85, and 86 in the record.

(The pages referred to follow:)

ACTIVITY 6.—*Appellate functions of the Commission*

Functions	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Veteran (sec. 14) appeals	38	$313,148 (342,000)	36	$309,100 (323,200)	36	$323,200
Nonveteran (E.O. 10988) appeals			14	116,000 (121,100)	14	121,100
Adverse actions (pt. 22-C) appeals	8	63,173 (69,000)	2	12,500 (13,100)	2	13,100
Reduction-in-force appeals	15	122,469 (133,700)	13	117,100 (120,900)	13	120,900
Classification appeals	21	184,795 (201,800)	20	175,900 (183,000)	20	183,000
Suitability appeals	8	58,075 (63,400)	8	59,700 (61,700)	8	61,700
Performance rating appeals	3	26,425 (28,900)	3	25,100 (26,200)	3	26,200
All other appeals	6	47,644 (52,000)	7	64,000 (66,700)	7	66,700
Prohibited political activity cases	7	61,307 (67,000)	8	70,600 (74,100)	8	74,100
Total, activity 6	106	877,036 (957,800)	111	[1] 950,000 (990,000)	111	990,000

[1] Includes anticipated supplemental appropriation of $33,600 for part of pay increase costs.

NOTE.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

SUMMARY WORKLOAD TABLE

ACTIVITY 6.—*Appellate functions of the Commission*

Workload items	Fiscal year	On hand	Received	Processed	Canceled	Remaining	Unit cost [1]
Veteran (sec. 14) appeals	1962	439	2,054	1,948	181	364	$161 ($176)
	1963	364	2,000	2,000	157	257	155 (161)
	1964	257	2,050	2,000	152	155	161
Nonveteran (E.O. 10988) appeals.	1962						
	1963	0	900	750	70	80	155 (161)
	1964	80	950	750	135	145	161
Adverse actions (pt. 22-C) appeals.	1962	74	992	913	102	51	69 (75)
	1963	51	210	190	40	31	66 (69)
	1964	31	210	190	30	21	69
Reduction-in-force appeals	1962	316	1,471	1,324	266	197	93 (102)
	1963	197	1,510	1,325	190	192	88 (91)
	1964	192	1,510	1,325	195	182	91
Classification appeals	1962	303	1,538	1,380	169	292	134 (146)
	1963	292	1,490	1,370	154	258	128 (134)
	1964	258	1,490	1,370	155	223	134
Suitability appeals	1962	103	1,186	1,182	4	103	49 (54)
	1963	103	1,160	1,155	6	102	52 (53)
	1964	102	1,160	1,155	6	101	53
Performance rating appeals	1962	39	104	100	14	29	264 (288)
	1963	29	95	95	4	25	264 (276)
	1964	25	95	95	3	22	276
All other appeals	1962	57	621	554	20	104	86 (94)
	1963	104	795	795	17	87	80 (83)
	1964	87	795	795	15	72	83
Prohibited political activity cases.	1962	49	118	124		43	494 (540)
	1963	43	135	140		38	504 (529)
	1964	38	135	140		33	529

[1] Figures in parenthesis are adjusted to reflect 1964 pay rates for comparability.

PERSONNEL REQUIREMENTS

The average number of positions and salary costs for this activity are shown in the following table:

	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Central office	58	$491,078 (536,300)	62	$570,000 (577,800)	62	$577,800
Regional offices	48	385,958 (421,500)	49	380,000 (412,200)	49	412,200
Total, activity 6	106	877,036 (957,800)	111	[1] 950,000 (990,000)	111	990,000

[1] Includes anticipated supplemental appropriation of $33,600 for part of pay increase costs.

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.

Beginning in fiscal year 1963 a new workload of nonveteran appeals will be received as the result of Executive Order 10988, which extends the same rights of appeal to nonveterans as is available to veterans under the Veterans' Prereference Act. Without benefit of prior experience for forecasting receipts of this type, a conservative estimate with respect to receipts, production, and costs has been programed for fiscal years 1963 and 1964. Funds for processing this new workload in 1963 have been absorbed within the 1963 appropriation through economies achieved in Commission operations.

Reduced unit costs in fiscal years 1963 and 1964 for all appellate functions are the result of regional reorganization and reduction in administrative costs through greater efficiency of operations.

No significant increase is anticipated in receipts for fiscal year 1964.

The funds requested for this activity for fiscal year 1964 provide for the same level of operation as programed for fiscal year 1963.

Narrative justification: Veteran appeals

	1962	1963	1964
Average positions	38	36	36
Cost	$313,148	$309,100	$323,200
Appeals processed	1,948	2,000	2,000
Unit cost	($176)	($161)	$161

Under section 14 of the Veterans' Preference Act of 1944 appeals may arise as a result of veteran preference eligibles being dismissed from the service, suspended for more than 30 days, involuntarily furloughed, or reduced in rank or compensation. Included in the cost of this function is time spent: (1) With the appellants, representatives of appellants, and agencies; (2) in conducting hearings; and (3) in preparing findings and recommendations in individual cases.

For fiscal year 1963, receipts of veteran appeals are estimated at 2,050 cases representing the experience level of fiscal year 1962. Production of 2,000 cases in 1963 will permit workload in this function to remain current.

Receipts for this category of appeal are expected to continue at the same rate in fiscal year 1964 as estimated for fiscal year 1963. By maintaining an annual production rate of 2,000 cases, it is estimated that workload will be maintained at a current level during fiscal year 1964.

Funds requested for fiscal year 1964 provide for the same level of operation as fiscal year 1963.

Mr. EVINS. Appellate functions of the Commission. This year you have 111 in this activity for $950,000; and for 1964 you project 111 employees and $990,000. This involves all your veterans appeals cases, nonveterans, suitability appeals, and types of civil service employee and field cases. In the central office you employ about 62 in the work, and there are about 49 or 50 in the field offices. Are most of these cases settled in the field, Mr. Chairman?

Mr. MACY. The bulk of the cases are resolved at what we term the first level of appeal. This means the regional office or the appeals examining office here in Washington. The second level of appeal, the Board of Appeals and Review, which acts for the Commissioners, receives less than 50 percent of the cases.

Mr. EVINS. You anticipate 2,000 appeals will be processed in the next year?

Mr. MACY. That is the estimate on section 14 appeals. Those are adverse action cases involving employees with veterans' status. This shows that we anticipate a workload at about the same level as we had in 1962.

The second item, relating to nonveteran appeals, is one in which we are still in the process of gaining initial experience. The extension of rights to nonveterans for review of appeals on the merits of the case by the Commission was only applicable July 1, 1962, under Executive Order 10988.

Mr. EVINS. How many of those are projected for this year?

Mr. MACY. We are projecting 750 of those for next year.

TOTAL APPELLATE WORKLOAD

Mr. THOMAS. Give us a round figure. Let us see what the personnel in the division do. What do they all add up to, the total number processed in these classifications?

Mr. MACY. I think we would say 2,000 section 14 appeals and 750 nonveteran appeals. That is 2,750. Roughly 200 under part 22–C.

Mr. THOMAS. Why not give us a fresh table showing the cases received, by classification, for fiscal years 1962 and 1963, received and processed.

Mr. MACY. I believe that is what we have here for 3 years.

Mr. THOMAS. You said it was cumulative for 4 or 5 years. Adding it up, it looks like 13,000 or 14,000 cases.

Mr. MACY. It is about 7,000 or 8,000 for 1962.

Mr. THOMAS. Give us a little table by classification, received and processed, two different columns.

Mr. MACY. We will put it in and show a grand total.

(The information requested follows:)

Appellate workload

Workload items	Fiscal year 1962		Fiscal year 1963		Fiscal year 1964	
	Received	Processed	Received	Processed	Received	Processed
Veteran appeals (sec. 14)	2,054	1,948	2,050	2,000	2,050	2,000
Nonveteran appeals (Executive Order 10988)			900	750	950	750
Adverse actions (pt. 22-C appeals)	992	913	210	190	210	190
Reduction-in-force appeals	1,471	1,324	1,510	1,325	1,510	1,325
Classification appeals	1,538	1,380	1,490	1,370	1,490	1,370
Suitability appeals	1,186	1,182	1,160	1,155	1,160	1,155
Performance rating appeals	104	100	95	95	95	95
All other appeals	621	554	795	795	795	795
Prohibited political activity cases	118	124	135	140	135	140
Total, appellate workloads	8,084	7,525	8,345	7,820	8,395	7,820

PROHIBITED POLITICAL ACTIVITY

Mr. OSTERTAG. Before we leave this subject, may I inquire about your prohibited political activities cases?

Mr. MACY. Yes, sir.

Mr. OSTERTAG. I believe you recently received a problem or complaint along that line. Would this classification cover the raising or solicitation of funds for political benefits and the pressure that was applied on civil service employees to purchase tickets and attend certain functions?

Mr. MACY. If an action was taken with respect to a complaint under the Hatch Act and the individual was dismissed, an appeal would show under this particular category. However, our funds for administration of the Hatch Act are covered under a separate heading. We have a limitation on the amount of money that can be spent for the administration of the Hatch Act. I believe that is $90,000.

Mr. OSTERTAG. In recent days, I believe this matter was referred to you, as the Chairman of the Commission, or to the Commission as a whole, was it not?

Mr. MACY. Let me refer to that particular situation.

Mr. WILLIAMS. It is included in the same workload that you were referring to before, the last item.

Mr. THOMAS. It indicates around 500 cases received. After 1, 2 or 3 years, or what?

Mr. MACY. The estimate is that 140 cases would be processed under the point involved here.

With respect to the situation you describe, Mr. Ostertag, if there were a complaint to the Civil Service Commission that an individual had been subjected to coercion in making a contribution to a political party, the Commisson would investigate such a complaint and form a judgment as to whether the alleged action was in violation of the act or not, and a decision would be made by the three Commissioners. The Commission to date has not received such a complaint, and in view of the newspaper publicity, anticipates there may be some and, if so, will conduct an immediate investigation.

Mr. OSTERTAG. I do not recall the exact language of the story, but if I understood correctly, recent newspaper reports indicated that

you, as Chairman of the Commission, intended to conduct such an investigation.

Mr. MACY. My comment to the press was that in the event there were complaints that fell within the Commission's jurisdiction under the Hatch Act, we would investigate them. Up to the present time, we have not received any. We have had no complaints.

The Commission's jurisdiction under the Hatch Act is limited to employees in the competitive civil service.

Mr. OSTERTAG. Yes.

Mr. MACY. All others in the excepted services are covered for enforcement purposes by the head of the particular agency.

(Off the record.)

EXECUTIVE AND ADMINISTRATIVE SERVICES

Mr. EVINS. We shall turn to "Activity 7, executive and administrative services." Place in the record the chart on page 94 and the statement on 95.

(The material referred to follows:)

ACTIVITY 7.—*Executive and administrative services*

Functions	1962 actual		1963 program		1964 estimate	
	Average positions	Cost	Average positions	Cost	Average positions	Cost
Office of the Commissioners	23	$194,335 ($201,000)	23	$195,800 ($200,500)	23	$200,500
Executive direction	15	154,048 ($167,600)	17	181,800 ($189,300)	17	189,300
Legal services	18	158,045 ($170,700)	18	164,500 ($170,700)	18	170,700
Director of management services	9	78,591 ($79,400)	9	76,900 ($79,400)	9	79,400
Budget and fiscal services	42	298,904 ($323,600)	42	300,100 ($310,900)	42	310,900
Management systems services	32	219,151 ($242,700)	31	227,400 ($235,100)	31	235,100
Office services	108	600,240 ($649,000)	109	634,800 ($655,000)	105	630,100
Personnel services	27	184,858 ($215,600)	23	177,100 ($183,700)	23	183,700
Library services	11	72,707 ($78,700)	13	81,600 ($84,300)	13	84,300
Total, activity 7	285	1,960,879 ($2,131,300)	285	[1] 2,010,000 ($2,108,900)	281	2,084,000

[1] Includes anticipated supplemental appropriation of $57,100 for part of pay increase costs.

NOTE.—Figures in parentheses are adjusted to reflect 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 regulations; 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.

Mr. EVINS. In the "Office of the Commissioners," 23 were on the staff for 1962, and 23 are projected for next year. Executive direction, legal services, director of management services, and the other

services of the executive and administrative branch—there are 285 employees for this activity in 1963; 281 for 1964, a reduction in personnel.

Mr. MACY. A reduction of four employees.

Mr. THOMAS. A mighty small reduction there, gentlemen.

Go ahead, Mr. Evins.

Mr. EVINS. If there are no questions, we will move over to "Other objects."

Mr. BOLAND. A bipartisan commission has been established for the purpose of looking into the overall policy of the Civil Service Commission. Who serves on it?

Mr. MACY. The three Commissioners are Commissioner Lawton, Commissioner Hampton, and myself. The 23 positions listed there are the positions in our immediate office, plus the secretariat for the Commissioners.

OTHER OBJECTS OF EXPENSE

Mr. EVINS. If there are no further questions, we will turn to "Other objects." You are asking for a total of $4,162,000. For travel and transportation, there is no increase. Transportation of things is up slightly. Rent, communications, and utilities are increased. Printing and reproduction are slightly down. Other services are slightly up. Supplies and materials are the same.

Any questions, gentlemen?

Insert the table on page 104 in the record.

(The table referred to follows:)

Comparative summary statement by object class: other objects of expenditure

Object classification	1962 actual	1963 program	1964 estimate
12 Personnel benefits	$1,253,160 (1,363,693)	[1] $1,324,700 (1,384,300)	$1,332,700
21 Travel and transportation of persons	511,437	547,800	547,800
22 Transportation of things	141,731	143,600	146,600
23 Rent, communications, and utilities	846,464	901,100	960,200
24 Printing and reproduction	532,672	507,000	497,000
25 Other services	429,805	304,500	308,700
26 Supplies and materials	257,250	257,300	257,300
31 Equipment	336,247	164,300	111,700
Total, other obligations	4,308,766 (4,419,299)	[1] 4,150,300 (4,209,900)	4,162,000

[1] Includes anticipated supplemental appropriation of $38,000 for part of increased costs resulting from passage of Public Law 87-793.

NOTE.—Although increases are reflected herein for personnel benefits, postage, and other items resulting from the passage of Public Law 87-793, all or part of these increases are being absorbed by the Commission with offsetting decreases elsewhere in this budget. See pages 7 and 8 for explanatory tables. Figures in parentheses are adjusted to reflect costs at 1964 pay rates for comparability.

Investigation of U.S. Citizens for Employment by International Organizations

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	43	22	27
	Positions other than permanent	12		
	Total personnel compensation	55	22	27
12	Personnel benefits	4	2	3
21	Travel and transportation of persons	3	4	4
25	Other services	1	1	1
	Services of Civil Service Commission Bureau of Personnel Investigations	316	371	559
	Services of Federal Bureau of Investigation	46	52	76
	Total obligations	425	452	670

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	5	2	3
Full-time equivalent of other positions	1		
Average number of all employees	6	2	3
Number of employees at end of year	9	2	3
Average GS grade	7.2	7.2	7.2
Average GS salary	$6,625	$7,067	$7,088

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
Investigations (program costs, funded)	441	452	615
Change in selected resources [1]	−16		55
Total obligations	425	452	670
Financing: Unobligated balance lapsing	5		
New obligational authority	430	452	670
New obligational authority:			
Appropriation	430	430	670
Proposed supplemental due to pay increases		22	

[1] Selected resources as of June 30 are as follows: Unpaid, undelivered orders, 1961, $101,000; 1962, $85,000; 1963, $85,000; 1964, $140,000.

Mr. Evins. We have a variety of investigations of U.S. citizens for employment by international organizations.

Mr. Thomas. We covered that pretty thoroughly this morning.

Mr. Evins. The tables appearing on pages 118 and 119 should be included in the record at this point, and also the textual material on pages 120, 121, and 122.

(The pages referred to follow:)

Investigation of U.S. citizens for employment by international organizations

Functions	1962 actual	1963 program	1964 estimate
Federal Bureau of Investigation:			
Name checks	$1,666 (1,850)	$1,700 (1,900)	$2,460
Full field loyalty investigation	44,030 (48,550)	50,300 (52,100)	73,340
Subtotal, FBI	45,696 (50,400)	52,000 (54,000)	75,800
Civil Service Commission:			
National agency checks	1,170 (1,300)	1,200 (1,300)	1,755
Background investigations	314,650 (346,700)	347,750 (364,800)	516,635
Loyalty advisory opinions	38,832 (42,800)	31,450 (33,100)	45,700
Analysis of other cases	24,364 (26,800)	19,600 (20,700)	30,110
Subtotal, Civil Service Commission	379,016 (417,600)	400,000 (419,900)	594,200
Total	424,712 (468,000)	[1] 452,000 (473,900)	670,000

[1] Includes anticipated supplemental appropriation of $22,000 for pay increase costs.

NOTE.—Figures in parentheses are adjusted to reflect 1964 pay rates for comparability.

Summary workload table

Workload items	1962 actual		1963 program		1964 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	1,068	$1.56 [1] (1.72)	1,070	$1.59 [1] (1.62)	1,515	$1.62
Full field loyalty investigations	51	860.00 [1] (948.00)	55	915.00 [1] (940.00)	78	940.00
Civil Service Commission:						
National agency checks	149	7.85 [1] (8.65)	150	8.00 [1] (8.28)	212	8.28
Background investigations	899	350.00 [1] (386.00)	946	368.00 [1] (387.00)	1,335	387.00
Loyalty advisory opinions	60	647.20 [1] (713.00)	60	524.00 [1] (571.00)	80	571.00
Analysis of other cases	948	25.70 [1] (28.32)	950	20.63 [1] (22.39)	1,345	22.39

[1] Adjusted to reflect 1964 pay rates 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 decision by the Secretary General of the United Nations or the executive heads of other international organizations.

Based on information received from the Department of State, receipts of cases for investigation in fiscal year 1964 are expected to increase by 300 cases (from 1,035 to 1,335) or approximately 30 percent over the 1962 actual experience. The Department considers the increase of receipts to be a conservative estimate with a strong possibility that the projected increase may be substantially exceeded during the course of the year. The heavy volume of workload is attributed to the expanded programs of the various international organizations with expectation that employment of U.S. citizens will continue at the same ratio in relation to the total employed thus increasing the number of investigations required. In addition to the heavier workload, case costs of investigations conducted by the Federal Bureau of Investigation and the Civil Service Commission have also increased due to the higher personnel compensation rates in fiscal year 1964 as set forth by Public Law 87–793. Application of these increased case costs to the anticipated number of investigations will require an appropriation of $670,000 for fiscal year 1964.

ANTICIPATED SUPPLEMENTAL REQUEST FOR FISCAL YEAR 1963

Due to (1) backlogs of work carried over from fiscal year 1962, (2) an increase in the rate of receipts experienced thus far this fiscal year, and (3) increased costs due to the passage of Public Law 87–793, the Commission will request a supplemental appropriation of $200,000 for fiscal year 1963 in order to process investigations on a current basis.

Annuities Under Special Acts

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. To employees engaged in construction of the Panama Canal	1,623	1,594	1,480
2. To widows of former employees of the Lighthouse Service	399	406	408
Total program costs, funded—obligations (object class 13)	2,022	2,000	1,888
Financing: Unobligated balance lapsing	226		
New obligational authority (appropriation)	2,248	2,000	1,888

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.

	June 30, 1962	June 30, 1963	June 30, 1964
Panama Canal annuitants	1,770	1,624	1,469
Lighthouse Service widows	430	433	431

Mr. EVINS. We shall turn to "Annuities under special acts."

Mr. MACY. These are primarily under two acts. One is the Panama Canal Construction Act, and the Lighthouse Service Act, which provide payments to those who are covered by those acts. This is a decreasing number each year. For that reason, we note the requested amount is less than the amount appropriated in 1963, which in turn was less than in 1962.

Mr. EVINS. Place page 124 in the record and the tables on pages 125 and 126.

(The pages referred to follow:)

APPROPRIATION: ANNUITIES UNDER SPECIAL ACTS

The estimated requirements for fiscal year 1964 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, 1962	$2,248,000
Appropriated, 1963	2,000,000
Requested, 1964	1,888,000
Decrease from 1963	112,000

Funds needed in fiscal year 1964 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 1964. Under the laws, these claims require retroactive payments to the beginning dates of the acts.

The decrease of $112,000 from the 1963 appropriation is due to drops for death in fiscal years 1963 and 1964 which 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 1963 and 1964

	Number	Annual rate	Funds required	
			Fiscal year 1963	Fiscal year 1964
Annuity roll as of July 1, 1962	1,770	[1] $900	$1,593,000	$1,593,000
Anticipated additions fiscal year 1963 retroactive to May 29, 1944 (4 additions times $900 average annuity times 19.08 years)[2]			+68,500	
Funds required to finance these 4 additions in fiscal year 1964	+4	900		+3,600
Total	1,774		1,661,500	1,596,600
Less drops fiscal year 1963 for death [3]	−150	450 / 900	−67,500	−135,000
Funds required for fiscal year 1963	1,624		1,594,000	1,461,600
Anticipated additions fiscal year 1964 retroactive to May 29, 1944 (5 additions times $900 average annuity times 20.08 years)[2]	+5			+90,400
Total	1,629			1,552,000
Less drops fiscal year 1964 for death	−160	450		−72,000
Funds required for fiscal year 1964	1,469			1,480,000

[1] The $900 average annuity is computed from the total annuity roll on July 1, 1962.

[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 3d figure in the formula refers to the number of years' retroactive benefits to which new additions to the roll are entitled.

[3] Rate of $450 (annual rate of $900 for ½ year) used in computing amount of reduction in the roll for fiscal year 1963 and full rate of $900 used in reflecting this reduction in the roll for fiscal year 1964 requirements.

Statement of funds required to finance benefit payments to widows of former employees of the Lighthouse Service for the fiscal years 1963 and 1964

	Number	Annual rate	Funds required	
			Fiscal year 1963	Fiscal year 1964
Annuity roll as of July 1, 1962	430	$900	$387,000	$387,000
Anticipated additions fiscal year 1963 retroactive to Sept. 1, 1960 [1] (2 additions times $600 annual rate times 7.583 years plus 2 additions times $900 annual rate times 5.25 years)[2]			+18,500	
Funds required to finance these additions in fiscal year 1964	+2	900		+1,800
Other (those not entitled to retroactive benefits)[3]	+31	450 900	+14,000	+27,900
Total	463		419,500	416,700
Less drops fiscal year 1963 for death [3]	−30	450 900	−13,500	−27,000
Funds required for fiscal year 1963	433		406,000	389,700
Anticipated additions fiscal year 1964 retroactive to Sept. 1, 1960 [1] (2 additions times $600 annual rate times 7.583 years plus 2 additions times $900 annual rate times 6.25 years)[2]	+2			+20,100
Other (those not entitled to retroactive benefits)[3]	+27	450		+12,150
Total	462			421,950
Less drops fiscal year 1964 for death	−31	450		−13,950
Funds required for fiscal year 1964	431			408,000

[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 3d 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, 1960, 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 $470 (annual rate of $900 for ½ year) used in computing amount of increase in roll for fiscal year 1963 and full rate of $900 used in reflecting this increase in roll for fiscal year 1964 requirements.

Employees Health Benefits Fund

Mr. Evins. We will turn to the Employees Health Benefits Fund. Give us a statement as to the status of this fund, Mr. Chairman.

Mr. Macy. This Federal Employees Health Benefits program now covers approximately 1,900,000 employees and approximately 79,000 annuitants. Those covered are participating in a variety of programs that cover benefits for the employee and his family. The request in this section is for an appropriation of $9,530,000 to cover the contribution of the Federal Government for the Government's share of payments for the 79,000 annuitants under this program and a net increase of an additional 79,000 annuitants to be added by June 30, 1964. As we mentioned this morning, there is also a request to provide a dollar limitation for the administrative services under this program.

Mr. Evins. How much have the employees paid into the fund?

Mr. Macy. The employees' contribution to the fund to date.

Mr. Ruddock. For 1962, it was $218.5 million; and for 1963, it will be approximately $227 million and $266.9 million in 1964.

Mr. Evins. With a corresponding increase by the employees and the Government each year. You need $9,530,000.

Mr. Macy. We estimate that in order to sustain this part of the program, namely, the Government's payment for the annuitants, it will involve an increase of approximately $3 million a year.

Mr. EVINS. Mr. Reporter, place in the record the general statement and the table on page 130. You suggested limitations which we have discussed.

(The material referred to follows:)

EMPLOYEES HEALTH BENEFITS FUND

GENERAL STATEMENT

The Federal Employees Health Benefits Act of 1959 (Public Law 86-382, 73 Stat. 713) 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 benefit 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 certain 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.

Almost 1.9 million employees and approximately 79,000 annuitants are participating in this program. For fiscal year 1962, $218.5 million was withheld from enrolled employees and annuitants and $128.5 million was contributed by the Government as its share of the cost of health benefits. An estimated $226.9 million will be deposited into the fund for fiscal year 1964 from amounts withheld from employees and annuitants and $140.5 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 37.5 percent leaving 62.5 percent to be contributed by participants. For the 1962 fiscal year $333.4 million was paid from the fund to approved health benefits plans as the cost of providing the health benefits. Approximately $352.2 million will be paid out for fiscal year 1963 and $391.7 million in fiscal year 1964. For each health benefits plan, 3 percent of the contribution toward such plan is set aside in the fund to provide a contingency reserve. The contingency reserve can only be used to defray future increased rates, or to reduce contributions, or to provide increased benefits. In addition, 1 percent of all contributions is set aside for administrative expenses incurred by the Commission in the administration of the act.

All covered employees and annuitants have a choice between two types of Government-wide plans: (1) A service-benefit plan; and (2) an indemnity-benefit type plan. Each of the two Government-wide plans offers a further choice between two options, thus offering two levels of benefits. Many individuals have still a further choice among (1) employee organization plans, (2) a group-practice prpayment plan, or (3) an individual-practice prepayment plan. Contributions by participants are based on the type of enrollment and plan they select, and changes in plan and type of enrollment are permissible at specified periods after initial enrollment. The first "open season" allowing for changes by eligible employees and annuitants was held in October 1961. Funds are required in fiscal year 1964 to conduct another general open season in the fall of calendar year 1963.

Appropriation request, fiscal year 1964, Government payment for annuitants employees health benefits fund

	Appropriated 1962	Appropriated 1963	Estimated 1964	Changes 1964 compared with 1963
Payment to employees health benefits fund on behalf of enrolled annuitants	$4,500,000	$4,200,000	$9,530,000	+$5,330,000

Retired Employees Health Benefits Fund

Mr. Evins. We will turn to the Government contributions to the retired employees health benefits fund which we discussed this morning.

Mr. Macy. This pertains to the retired employees. As I explained this morning, in this instance the number of former employees covered will be reduced. As of June 30, 1962, there were 244,600 participants in the program. Of that number, 183,900 were employee annuitants, and 60,700 were survivors.

Mr. Evins. The amount of the appropriation request is considerably up, an increase of $1,660,000. It is declining, but the fund requirements are increasing.

Mr. Macy. Yes; the fund requirements are increasing in order to reflect the premium rate increase of approximately 15 percent that will be effective at the beginning of fiscal year 1964, an increase which will be shared equally by the participants and the Government.

We are also running into the fact that all of these programs are subjected to increased costs, health and medical programs. These costs must be met in the group program.

Mr. Irons. On the retired health benefits program, on more than one occasion in the future we will be coming before the committee indicating there must be an increase in the premium. They are getting older all the time, and the cost per individual for medical care increases.

Mr. Evins. The estimated increase of the Government contribution due to the rate increase is $2,128,000. The Government's cost for administering the fund is $392,000. There was a net loss in enrollment which is estimated at $252,000. You suggest a number of limitations in this field.

Are there any questions?

Payment to the Civil Service Retirement and Disability Fund

I think we have discussed this fund quite at length. Are there any further questions?

Insert pages 154 through 161 in the record.

(The pages referred to follow:)

	Appropriated, 1962	Appropriated, 1963	Estimate, 1964	Changes, 1964 compared with 1963
Payment to civil service retirement and disability fund	$44,637,000	0	$62,000,000	+$62,000,000

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 current session of Congress legislation will be proposed which will provide for permanent financing of the retirement system.

The amount requested for fiscal year 1964 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, amends 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 1964, will be $40,020,000. However, in view of Public 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.

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. The increased benefits are not now payable, since Public Law 87–793 does not authorize funds for this purpose and there is no exemption from the restriction on use of the retirement fund imposed by the paragraph headed "Civil Service Retirement and Disability Fund" in section 101 of title I of the act of August 28, 1958 (72 Stat. 1064). However, a supplemental appropriation of $30 million is being requested to cover these increased benefit payments in fiscal year 1963. The amount of $62 million included in this request is the estimated amount of such payments in fiscal year 1964. 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.

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 deduction 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 sum-

marizing 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 on estimated future interest earnings will be assessed by the board of actuaries and the Commission at the time of the next actuarial valuation and any necessary revisions in the normal cost and deficiency estimates will be made at that time. Until such valuation is made, deviations in interest earnings from the 3-percent rate are treated as adjustments of the deficiency. The next actuarial valuation will be as of June 30, 1963. The results, however, are not expected to be available until approximately 1 year later.

COMPUTATION OF NORMAL COST

The board of actuaries estimates that the normal cost of the benefit provisions as amended by Public Law 84–854 is 13.83 percent of the total salaries of employees covered by the Retirement Act. With employees paying 6.50 percent, this leaves a Government normal cost of 7.33 percent. As previously explained, the normal cost is not increased by the enactment of Public Law 87–793.

It is estimated that the annual payroll of covered employees will total $13,973,600,000 after the first phase of salary increases provided by Public Law 87–793, and will total $13,342,800,000 after the second phase, effective January 1, 1964. Covered payroll in fiscal year 1964 is thus estimated at the mean of these amounts, or $14,158,200,000.

The Government's normal cost in fiscal year 1964 is estimated as follows:

(1) Estimated total salaries of covered employees	$14,158,200,000
(2) Government normal cost percentage	7.33
(3) Government normal cost, fiscal year 1964: (1) × (2)	$1,037,796,000

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 appropriation in fiscal year 1962, the Commission estimated an increase of $330,363,000 in the deficiency because of this legislation.

Neither were direct appropriations made in fiscal year 1963, so the deficiency will increase by interest thereon and by the excess of the Government's normal cost over contributions by agencies at the rate of 6½ percent of salaries of their covered employees. Interest on this excess must also be included, since the normal cost is assumed to be paid continuously throughout the year, rather than at the end of the year.

The deficiency will also increase during fiscal year 1963 because the fund in that year will earn interest at a rate lower than 3 percent. As previously stated, the board's estimates of the normal cost and the deficiency are predicated on the assumption that the fund will earn 3 percent over the long-term future. Even though Public Law 87–350 changes the basis for future investment of the retirement fund, its effect during fiscal year 1963 will result in average earnings of less than 3 percent of the total fund. This is so because while current receipts into the fund are being invested to yield over 3 percent, the bulk

of the investments are earning less than 3 percent. This deviation from the assumed rate of 3 percent is treated as an adjustment of the deficiency. As more of present investments at coupon rates of less than 3 percent are redeemed and reinvested, along with current receipts, at yield rates greater than 3 percent, any earnings in excess of an average of 3 percent of the total fund will likewise be treated as an adjustment of the deficiency, until the next actuarial valuation is made.

As previously stated, the higher salaries provided by part II of Public Law 87–793 cause an increase in the deficiency, estimated at $2,125 million. On the assumption of annual appropriations to cover the cost of benefits provided by part III, no increase in the deficiency because of this portion of Public Law 87–793 is included in the following table.

The following table shows the factors used in estimating interest on the deficiency for fiscal years 1962 and 1963.

	Fiscal year 1962	Fiscal year 1963
1. Deficiency at—		
June 30, 1961	$32, 546, 939, 000	
June 30, 1962		$33, 660, 020, 000
2. Government's normal cost, 7.33 percent of estimated annual payroll of—		
$13,096,300,000 in 1962	959, 959, 000	
$13,790,700,000 in 1963		1, 010, 858, 000
3. Agency contributions, 6½ percent of estimated annual payroll of—		
$13,096,300,000 in 1962	851, 259, 000	
$13,790,700,000 in 1963		896, 396, 000
4. Excess of item 2 over item 3	108, 700, 000	114, 462, 000
5. Amount by which interest income falls short of income at assumed rate of 3 percent (see detail on following page)	26, 343, 000	23, 566, 000
6. Increase in deficiency due to salary increases provided by Public Law 87–793		2, 125, 000, 000
7. Deficiency at June 30, excluding interest items (1+4+5+6)	32, 681, 982, 000	35, 923, 048, 000
8. Interest at 3 percent on deficiency (3 percent of item 1)	976, 408, 000	1, 009, 801, 000
9. Interest at 2 percent (for ½ year) on excess of Government normal cost over agency contributions (1½ percent of item 4)	1, 630, 000	1, 717, 000
10. Interest at 3 percent (for 8½ months) on item 6		45, 156, 000
11. Total interest (items 8+9+10)	978, 038, 000	1, 056, 674, 000
12. Total deficiency at June 30, 1962 (items 7+11)	33, 660, 020, 000	

Summary of computation on a normal cost plus interest basis, fiscal year 1964

1. Government normal cost	$1, 037, 796, 000
2. Interest on deficiency for 1963	1, 056, 674, 000
3. Total required on normal cost plus interest basis (items 1+2)	2, 094, 470, 000
4. Less contributions by agencies	920, 283, 000
5. Amount on normal cost plus interest basis not met by agency contributions (item 3–4)	1, 174, 187, 000

Detail of item 5

	Fiscal year 1962 actual	Fiscal year 1963 estimate
1. Investments in fund at beginning of year	$11,037,198,000	$12,070,638,000
2. Direct appropriation to fund (Public Law 85-465 benefits 1962; Public Law 87-793 benefits in 1963)	44,637,000	30,000,000
3. Receipts from employee deductions, voluntary contributions, service credit payments, and agency contributions	1,714,772,000	1,804,792,000
4. Benefit disbursements	1,065,702,000	1,219,000,000
5. Excess of item 3 over item 4	649,070,000	585,792,000
6. Computation at 3 percent interest:		
(a) Item 1 for 12 months	331,116,000	362,119,000
(b) Item 2 for 12 months in 1962; for 3 months in 1963	1,339,000	225,000
(c) Item 5 for 6 months	9,736,000	8,787,000
(d) Total interest at 3 percent	342,191,000	371,131,000
7. Interest income	315,848,000	347,565,000
8. Excess of 3 percent over interest income (item 6d—item 7)	26,343,000	23,566,000

Limitation on Administrative Expenses, Employees Life Insurance Fund

Mr. Evins. Administrative expenses of employees life insurance fund.

Mr. Macy. This is the fund from which the employees life insurance program is financed. These are the administrative expenses necessary for the Commission to perform its part of the responsibility. The principal costs, you will recall, come from the fact that the Commission took over the members of the beneficial association. This means that for the employees and former employees covered by those associations, the Commission has to serve as the administrative agent.

Mr. Thomas. It costs more than all the other activities put together.

Mr. Macy. That is correct. There are 115,000 estimated participants in those associations in 1963.

Mr. Evins. I think it is better to have these funds broken down separately as the chairman has suggested. Tell us about the status of the revolving fund.

Investigations Revolving Fund

Mr. Macy. The revolving fund continues to serve an expanding number of full field investigations for about 50 different agencies. The principal customers are the Atomic Energy Commission, NASA, the Peace Corps——

Mr. Thomas. How often do they pay you?

Mr. Macy. They are paying us monthly.

Mr. Thomas. The General Services Administration complain these others do not pay them regularly and they have to carry them.

Mr. Macy. I gather our customers are prompt payers, and in return we have endeavored to keep the per-case cost down. I think it significant that we have kept the cost around $350 to $375 per case. Even with the increase in salaries, we have been able to keep this figure down.

Mr. Evins. You had $15,000 on hand at the beginning of the year, and received $40,000 during the year, a total of $55,000. Average cost per case, $377. You anticipate next year about $49,000.

Mr. MACY. That is correct. You will note in that same table on page 170, Mr. Evins, that we are estimating, in order to handle the revolving fund work, the Commission will have to maintain a staff of 1,535 employees, which is a very significant portion of the Commission's total employment.

Mr. EVINS. Any questions?

Mr. THOMAS. I do not recall, gentlemen—do any of you recall green sheets on those people? What were the green sheets on that investigative group? Give us a little bird's-eye view on your salary schedule.

Mr. MACY. We can give you a breakdown from the chart on the Bureau of Personnel investigations, which shows the 487 positions that are under activity 2.

Mr. THOMAS. Also the revolving fund personnel, about 1,500. Put them in the record for us.

Mr. MACY. We shall be very happy to do that.

Mr. EVINS. Include the grade, the cost, and the salary.

Mr. MACY. We shall be happy to provide that as a supplement.

(The information requested follows):

Revolving fund, average number of positions and cost, fiscal year 1964 budget

Organization	General schedule						Total	
	GS–15	GS–14	GS–13	GS–12	GS–11	GS–9 and below	Average number	Cost
Central office	1	1	1	19	79	213	314	$2,329,200
Regional offices:								
Atlanta region			1	4	50	94	149	1,169,600
Boston region		1		3	38	24	66	552,200
Chicago region			1	6	58	69	134	1,120,800
Dallas region		1		2	29	43	75	627,600
Denver region		1		2	33	107	143	1,098,300
New York region			1	6	60	151	218	1,714,200
Philadelphia region		1		2	38	48	89	741,300
Seattle region		1		1	21	20	43	359,700
San Francisco region			1	6	50	95	152	1,220,600
St. Louis region		1		2	35	114	152	1,197,500
Subtotal, regional offices	0	6	4	34	412	765	1,221	9,801,800
Total, CSC	1	7	5	53	491	978	1,535	12,131,000

Mr. EVINS. As the Government continues to grow and the budget mounts and with increased personnel, the duties of the Commission are increased and you gentlemen have my personal sympathy.

Mr. MACY. Thank you, sir. I wish to say the three Commissioners are indebted to the efficiency and good management of the Commission's staff in being able to present to you this year a budget that permits the reduction of 48 positions while the Commission is faced with increased workload. We feel this represents good management.

Mr. THOMAS. Next year we respectfully request you bring all your bureau chiefs.

Thank you very much, gentlemen.

Mr. MACY. Thank you, Mr. Chairman.

THURSDAY, JANUARY 24, 1963.

FEDERAL HOME LOAN BANK BOARD

WITNESSES

JOSEPH P. McMURRAY, CHAIRMAN OF THE BOARD
JOHN deLAITTRE, MEMBER OF THE BOARD
IRA DIXON, CONSULTANT
THOMAS H. CREIGHTON, JR., GENERAL COUNSEL
WILLIAM H. HUSBAND, GENERAL MANAGER, FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
LAWRENCE M. WALTERS, DIRECTOR, OFFICE OF EXAMINATIONS
CHARLES M. TORRANCE, DIRECTOR, OPERATING ANALYSIS DIVISION, FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
THADDEUS CORCORAN, BUDGET OFFICER

ADMINISTRATIVE EXPENSES

Object classification

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
11 Personnel compensation:			
Permanent positions	1,259	1,503	1,802
Positions other than permanent	3	5	4
Other personnel compensation	20		16
Add excess of annual leave earned over leave taken	6	22	26
Total personnel compensation	1,288	1,530	1,848
Deduct portion not chargeable to limitation	15		
Net personnel compensation	1,273	1,530	1,848
12 Personnel benefits	92	115	139
21 Travel and transportation of persons	98	93	93
22 Transportation of things	2	1	1
23 Rent, communications, and utilities	140	192	243
24 Printing and reproduction	5	16	26
25 Other services	11	19	20
Services of other agencies	7	12	13
26 Supplies and materials	33	45	48
31 Equipment	23	52	39
Total accrued expenses—costs	1,684	2,075	2,470

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	190	210	240
Average number of all employees	173	196	221
Number of employees at end of year	186	210	240
Average GS grade	8.1	8.3	8.4
Average GS salary	$7,448	$8,010	$8,158

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Examination and supervision of Federal home loan banks	244	265	309
3. Chartering savings and loan associations	146	175	201
5. Executive direction and staff services	851	1,077	1,374
6. Administrative services	443	558	586
Total accrued expenses—costs [1]	1,684	2,075	2,470
Financing: Unobligated balance lapsing	181		
Limitation	1,865	2,038	2,470
Proposed increase in limitation due to pay increases		37	

[1] Includes purchase of equipment as follows: 1962, $23,000; 1963, $52,000; 1964, $39,000.

Nonadministrative Expenses

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	6,431	7,544	8,445
	Other personnel compensation	89		69
	Add excess of annual leave earned over leave taken	83	136	124
	Total personnel compensation	6,603	7,680	8,638
	Deduct portion not chargeable to limitation	220		
	Net personnel compensation	6,383	7,680	8,638
12	Personnel benefits	480	584	654
21	Travel and transportation of persons	2,521	2,793	2,907
22	Transportation of things	7	15	10
23	Rent, communications, and utilities	289	340	360
24	Printing and reproduction	32	35	35
25	Other services	8	12	9
	Federal Home Loan Bank Board services	168	208	247
	Services of other agencies	2	2	3
26	Supplies and materials	33	37	39
31	Equipment	26	44	32
	Total accrued expenses—costs	9,949	11,750	12,934

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	912	994	1,002
Average number of all employees	876	932	974
Number of employees at end of year	874	994	1,002
Average GS grade	9.4	9.9	9.9
Average GS salary	$7,364	$8,283	$8,469

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
2. Supervision of Federal- and State-chartered institutions	454	652	730
4. Examining savings and loan associations	9,193	10,666	11,700
5. Executive direction and staff services	302	432	504
Total accrued expenses—costs [1]	9,949	11,750	12,934
Financing: Unobligated balance lapsing	417		
Limitation	10,366	11,500	12,934
Proposed increase in limitation due to pay increases		250	

[1] Includes purchase of equipment as follows: 1962, $25,000; 1963, $44,000; 1964, $32,000.

Mr. THOMAS. Gentlemen, will the committee please come to order? We have with us this morning the Federal Home Loan Bank Board.

Certainly we are delighted to have with us such a distinguished group. It is nice to see our Chairman, Mr. McMurray. We were sorry to learn of his accident and regret to see him in such an uncomfortable position. We wish for you a quick shedding of your harness. I know you are uncomfortable.

Is Brother Williams with us this morning, a member of the Board?

Mr. MCMURRAY. No, sir. Mr. Williams is out of the country at the moment. He is down in Lima, Peru, at an international meeting in connection with the Latin American assistance program.

Mr. THOMAS. That is quite an important program. We wish him well in his undertaking and his studies.

BACKGROUND OF MR. DE LAITTRE

We have the privilege and pleasure of having with us Mr. John deLaittre, a new member of the Board. We are delighted to have you, sir. We hope you enjoy your stay. It is a privilege and pleasure to have you with us.

Mr. DELAITTRE. Thank you, sir.

Mr. THOMAS. While we are on the subject, give us a little something about your background, your age and everything. You look about our age, about 32 or 33.

Mr. DELAITTRE. Thank you for the compliment, sir. I would be very happy to remind you that I had the privilege and honor of succeeding the Honorable Ira Dixon as the minority member of this Board last September. I was born and brought up in Minneapolis, Minn., attended schools there and then went to Harvard College, graduating in 1929.

Mr. THOMAS. Do you know my old friend Bill Stevens then, editor of your great paper?

Mr. DELAITTRE. Yes, sir.

Mr. THOMAS. He received a promotion. They sent him down to Houston.

Mr. DELAITTRE. I have known him for many years, very well, in Minneapolis. He was regarded as a very able and imaginative newspaperman.

Mr. THOMAS. He has that reputation in Houston. He is doing a tremendous job there.

Mr. DELAITTRE. I certainly agree. You are very fortunate to have him with you in Houston.

Mr. THOMAS. He is a very superior man by any yardstick you use. I hope he votes the Democratic ticket. Go ahead, please.

Mr. DELAITTRE. After college I was fortunate enough to travel around the world for a year and then attended Harvard Law School, graduating in 1933. I commenced the practice of law in one of the larger law firms in Minneapolis on September 5, 1933, earning $75 a month which they kindly raised to $100 a month when I got married.

Mr. THOMAS. I know what you are talking about.

Mr. DELAITTRE. My early practice gave me quite an insight into the whole matter of foreclosure of mortgages, not only on farms and homes, but on larger properties.

Mr. THOMAS. I imagine you had plenty of experience after 1933, 1934 and 1935.

Mr. DELAITTRE. It gave me quite an insight into lending practices and into what a serious depression can do to people on farms and in homes in the Middle West, at least.

Then, in 1940 I was invited to become an officer of the Farmers & Mechanics Savings Bank of Minneapolis, which is a mutual savings bank, the only one in that community, and I remained there for 22 years, becoming president of the bank during the past 6 years.

I take no credit for it, but I would like to place on the record the fact that the bank was less than $100 million in size when I went there and when I left, it was very close to $400 million.

Mr. THOMAS. Remarkable.

Mr. DELAITTRE. As I say, I take no credit for that. It was due to the thriftiness of the people and also I think inflation had some effect upon this. Then in 1961 I was asked by the Chairman of the Home Loan Bank Board to become a member of his task force. I was 1 of 2 savings bank members, there being 10 savings and loan association members of the 12-man task force.

This group met a few days each month to consider and to discuss and even sometimes to argue out, various matters of policy concerning the regulation and the promotion of the savings and loan industry and the thrift industry in general in this country.

I think perhaps my association with the members of the Board during that period of 1 year is what led to my being asked to become a member of the board, to succeed Ira Dixon last summer.

Since becoming a member of the Board on September 17, I have been very happy to work with my colleagues, the chairman, Joseph McMurray, and the other member, Joseph Williams. I must say, candidly, that I have never seen three men who were expected to accomplish so much work, do so many things, and make so many decisions. However, we have a very able staff, men who are not only capable but who have spent many years in public service and are truly devoted to the task before the Board.

There are, nevertheless, many decisions that cannot be delegated that the Board has to decide, and that lead to a great deal of work—but it is all most interesting. The three members of the Board work together harmoniously. I can truly say that even though I am the minority member, politics do not enter into the important financial decisions that are before us.

Thank you, sir.

Mr. THOMAS. That is very, very nice. We are delighted and honored to have you. We know you are a dedicated public servant. We welcome you aboard.

Gentlemen, we agree unanimously, do we not?

Mr. EVINS. Yes.

Mr. BOLAND. Yes.

Mr. THOMAS. We are honored to have our able and delightful friend with us, Mr. Ira Dixon, former member of the Board. You are filling the shoes of a highly intelligent and dedicated public servant in Mr. Dixon. We wish nothing but the best for him for at least 45 more years.

Where is Judge Creighton? Judge, it is nice to see you this morning. How are you feeling?

Mr. CREIGHTON. Very well, sir.

Mr. THOMAS. Where is Mr. Walters, Director of Examinations? Mr. Walters, welcome aboard.

Mr. WALTERS. Thank you, sir.

Mr. THOMAS. Mr. Torrance is director of operating and analysis division.

Mr. TORRANCE. Thank you, sir.

Mr. THOMAS. Of course, we are always glad to have with us Mr. Corcoran, the budget officer.

May I say, we have the privilege of looking over a good many budgets every year. This is certainly a work of art. We commend you for it.

Mr. CORCORAN. Thank you, sir. We appreciate that.

Mr. THOMAS. It is perfectly done. I wish some of the other agencies would take a page out of your book. I think the committee would appreciate it.

Mr. CORCORAN. Thank you, sir.

Mr. THOMAS. Mr. Chairman, do you and your colleagues have any general observations to make to us? If you do, we will be delighted to listen to you as long as you want to talk.

Mr. MCMURRAY. Yes, sir.

GENERAL STATEMENT

Mr. Chairman and members of the committee: It is always a pleasure to come over here and meet with you and to discuss with you the problems of the Board and to have you help us do our job.

I want to say that while we have a new Board member, John deLaittre, and I know that from the brief remarks he made, you will appreciate the fact that he is——

Mr. THOMAS. Did we mention Mr. Husband?

Mr. CORCORAN. No, sir.

Mr. THOMAS. That was my error. Pardon me. We are delighted to have Mr. Husband here. He is an oldtimer, well and favorably known. He is general manager of the insurance corporation.

Excuse me. Please proceed.

Mr. MCMURRAY. As I was saying, from hearing Mr. deLaittre, you recognize that he is highly qualified and a very able member of the Board who has pitched right in because of his background and his

knowledge. However, we also are having our cake and eating it, so to speak, because we also continue to have Ira Dixon, who has consented to furnish his knowledge and experience to the Board and we are very happy that he agreed to stay with us as a consultant.

As the justifications, recently submitted to the committee in support of the Board's portion of the President's budget, contain rather complete details of our requirements, my remarks will be confined to summarizing the activities of the saving and loan business for fiscal year 1962 and the prospects of business as we see them for fiscal year 1964. I will also comment on the financial requirements of the Board for fiscal year 1964.

INCREASES IN SAVINGS AND LOAN ACTIVITIES

During fiscal year 1962, the savings and loan business continued to expand. All of the activities of the savings and loan industry reached new peaks as indicated by the following statistics: Membership in the Federal Home Loan Bank System increased by 88, reaching 4,866 at June 30, 1962. In the same period, total assets of the membership increased to $86.8 billion, a gain of 15.6 percent.

Mr. EVINS. You are almost up to the President's budget.

Mr. MCMURRAY. That is June 30, 1962. I would guess at the present time it is something about $92 billion.

Mortgage loans made by member savings and loan associations in fiscal 1962 aggregated $18.9 billion. This volume, which established a new record, reflected an increase of approximately 25 percent over the previous peak volume, established last year.

Of the total loans made, 29 percent was for construction, over 41 percent for home purchase, and nearly 30 percent for other purposes such as refinancing, reconditioning, home improvement, et cetera. Such loans made by savings and loan associations represented 43 percent of the Nation's home financing.

In the face of increasing competition for the savings dollar, the gross flow of savings into member associations during fiscal 1962 increased by 12.8 percent to $29 billion. Withdrawals amounted to $20.3 billion, leaving a net inflow of $8.7 billion. This latter figure broke by 6.1 percent the alltime high record established the previous year.

The volume of earnings, new savings, and reserves for losses in member savings and loan associations also reflected substantial increases during fiscal 1962.

Mr. THOMAS. Do you mind an interruption, Mr. Chairman?

Mr. MCMURRAY. No, sir.

Mr. THOMAS. We do not want to impose on you. You have a tremendous burden to carry. We like to work over your budgets and your tables. As we said a while ago, this one is excellent.

Getting back to your estimate of your inflow, you are going at the rate of about a hundred new charters a year. Two-thirds of them are State. One-third of them are Federal. Going to your assets, your State institutions are mostly corporate stockownerships?

Mr. MCMURRAY. The new ones.

Mr. THOMAS. Your Federals are all mutuals?

Mr. MCMURRAY. Yes, sir.

INITIAL 1932 FINANCING

Mr. THOMAS. Back in 1932 when you organized, you went to the Treasury and borrowed $125 million. You would pay it back about 20 years later. The System owes nothing to anybody.

Mr. MCMURRAY. That is correct, sir.

OWNERSHIP OF SYSTEM ASSETS

Mr. THOMAS. You have a tremendous asset in your 11 banks. They borrowed the money. That has been repaid. The assets of the 11 banks belong to all your member banks.

If you were to dissolve the System tomorrow, where do the assets go?

Mr. MCMURRAY. To whom would they go?

Mr. THOMAS. Yes.

Mr. MCMURRAY. In a mutual association to the shareholders.

Mr. THOMAS. Each individual depositor would share in them?

Mr. MCMURRAY. Yes, sir.

Mr. THOMAS. How would you divide that profit? Is there any profit stored up or is it a paper profit?

Mr. MCMURRAY. There are also reserves, sir.

Mr. THOMAS. How would you figure out the reserves? Here is a man who has been a depositor say of a thousand dollars for 10 years. One has been a depositor for 20 years of a thousand dollars. One is a depositor of the same amount of money for a year. Would you figure it out on the basis of time? How would that distribution be made?

Mr. MCMURRAY. Actually, the way you would have to figure it out is every shareholder is equal to each other in terms of the share that they have of the reserves.

Mr. THOMAS. That is the point. What share of the reserves does that individual have? He has been in the System with the same amount of money, 10 years, 20 years, and 1 year.

Mr. MCMURRAY. It would be the same. The idea is these mutual associations will live forever and they serve a perpetual need in the community. This, of course, raises some questions about the conversion from a mutual to a stock association where the present shareholders "divvy" the surplus and the past shareholders do not. That is why some people I have heard argue against the right of associations to convert into stock companies because someone gets something for free.

EXPENSES OF THE BANK SYSTEM

Mr. THOMAS. Here in your budget you have a couple of limitations, $2,470,000 for your administrative expenses and a limitation in your nonadministrative expense of $12,934,000, but where is the rest of your operating expense covered?

Mr. MCMURRAY. I am sorry, sir.

Mr. THOMAS. This is not your entire operating expense of the System by any means, is it?

Mr. MCMURRAY. No, sir.

Mr. THOMAS. Where is that covered?

Mr. CORCORAN. The banks' expense, Mr. Chairman. You will find it on page 26.

Mr. THOMAS. I looked for it carefully. Point it out to me.

Mr. CORCORAN. On page 26 you have the operating expenses. The banks' operating expenses for the year were $74 million; this includes over $68 million in interest charges.

Mr. THOMAS. What is that operating expense?

Mr. CORCORAN. Operating expenses for the 11 banks.

Mr. THOMAS. That is 42?

Mr. CORCORAN. Operating expense was $74 million and the net operating income was $42 million.

GREENSBORO, N.C., BANK EMPLOYMENT

Mr. THOMAS. How many employees do you have? You have about 850 or 860 in your Examining Division assigned to your 11 banks. If you have that many examiners, what is the employment? I noticed your biggest employment in your Examining Division, larger than New York and all of them, is in Greensboro, about 144. If you have that number in the Examining Division, what is the total in the bank exclusive of examiners? Those are some of the things I had to chase all over the lot for last night.

I did not quite find it.

Mr. CORCORAN. The examiners are not attached to the banks; they are in the bank districts.

Mr. THOMAS. They are chargeable here but what is the employment in that bank?

Mr. CORCORAN. There are 25 employees, sir.

Mr. THOMAS. No more than 25?

You mean it takes 144 examiners to keep up and examine with all the member institutions, State and Federal, within the jurisdiction of that bank, which I presume covers 7 or 8 States and you only have 25 people in the big bank itself serving the same area?

Mr. CORCORAN. That is right, sir.

Mr. THOMAS. Is that a correct figure of 25?

Mr. CORCORAN. Approximately, yes, sir.

Mr. DELAITTRE. That figure was given to me yesterday by the chairman of the board of that particular bank.

OVERALL EXPENSES OF SYSTEM

Mr. THOMAS. Where is that $90 million expense covered? That is your big item of expense. That is the grandpapa item.

Mr. CORCORAN. That is as far as the banks are concerned.

Mr. THOMAS. What other expense do you have beside those?

Mr. CORCORAN. In the Insurance Corporation we have nonadministrative expense, which appears in our justification, page 108 gives the expenses for the Insurance Corporation; it includes both administrative and nonadministrative.

Mr. THOMAS. The only thing that is covered in this budget is what for the Insurance Corporation?

Mr. CORCORAN. Administrative expense of the Insurance Corporation.

Mr. THOMAS. Where is it set out as to the nonadministrative expense?

Mr. CORCORAN. It is set out in the statement on page 108, statement B.

Mr. THOMAS. Statement B?

Mr. CORCORAN. Yes, sir, page 108.

Mr. THOMAS. Here is your expense of $15.7 million.

Mr. CORCORAN. That is right.

Mr. THOMAS. What part of that is out from under the limitation?

Mr. CORCORAN. The first item is the limitation, $1,335,000; the rest is nonadministrative.

Mr. THOMAS. All right. What is the total expense of all the operating units, including the big banks, now?

Mr. MCMURRAY. Our total expense is $16,739,000.

Mr. CORCORAN. That is only administrative.

Mr. THOMAS. I am talking about banks, the Insurance Corporation, administrative, nonadministrative. It is in the neighborhood of about $90 million, is it not?

Mr. CORCORAN. It would be nearer a hundred million dollars, sir.

Mr. THOMAS. Where is that set out?

Mr. CORCORAN. It is not set out in any one place, sir; I am figuring it in my mind.

Mr. THOMAS. I could not find it, Mr. Corcoran.

Give us a horseback opinion. The only thing covered in here is the $7.5 and $12.9 million. That is the chickenfeed part of it. You have a total operating expense of around $90 million. You say nearer a hundred than ninety?

Mr. CORCORAN. Seventy-four for the banks; 15 for the Insurance Corporation which amount includes approximately $13 million for interest charges; and the examiners and supervision another $12 million. That would be around $100 million, plus $2.4 million for the administrative expense of the Board. It would be over a hundred million, sir.

COMPENSATION OF PERSONNEL IN THE BANKS

Mr. THOMAS. What about your personnel sheets on those items not covered in the limitation? Are they under civil service?

Mr. CORCORAN. No, sir. The banks' personnel are not under civil service.

Mr. THOMAS. Do you have a comparable pay scale for your banks?

Mr. CORCORAN. I am not at all sure, sir.

Mr. MCMURRAY. No, sir. I would say no. The bank presidents are in the same category as the Federal Reserve bank presidents. The bank presidents' and officers' pay is different than ours. It is higher than the Board members' as a matter of fact.

Mr. THOMAS. What is that salary? What is the salary for the president of the bank?

Mr. MCMURRAY. They vary from $26,000 to $35,000.

OPERATING AUTHORITY

Mr. THOMAS. Where in the basic law do you get that distinction? Where is the operating authority? Where is the chief counsel? Can

you put your finger on that part of the law? In the back of the justification you were very kind. You set up the history of the bank. Might I suggest to the membership they turn to this and read it over. I am sure you have already done it. It is pretty complicated. It gives the history of the organization. Which one of these acts pertains? The last act gives to the Chairman of the Board the authority to do the managing. We are quite familiar with that. Wherein is the authority that sets the pay, et cetera, where you have one scale of pay for the banks, one for the Board, et cetera, and where is the authority, the direction in law to put a certain part of your operation under limitation and the other part not under limitation?

Mr. CREIGHTON. Mr. Chairman, under the Bank Act it provides for the organization of the banks and sets forth that the directors of the bank shall have authority to hire their employees (sec. 12) subject to approval by the Board. These banks are separate independent corporations, the stock of which is owned by the member institutions.

Mr. THOMAS. But they all started out by virtue of a Treasury loan.

Mr. CREIGHTON. That is true. They started out by virtue of a Treasury loan but that loan was repaid. The loan was made under provisions of the act and then it provided for the retirement of that loan.

Mr. THOMAS. That was in the basic act of 1932.

Mr. CREIGHTON. 1932, yes, sir.

Mr. THOMAS. The various reorganization steps that you have gone through, of which there have been a half dozen since then, have not changed the basic principle of the act?

Mr. CREIGHTON. Not with respect to the banks; no, sir.

Mr. THOMAS. We are not complaining. We are just seeking information. I do not quite see the logic of the thinking though for the banks to have one scale of pay and the Board to have another when after all, the responsibility is in the Board.

Mr. CREIGHTON. Mr. Chairman, I think this Board has suggested that many times.

Mr. THOMAS. We have no objection to the part the bank plays. We have no objection to that. That pattern ought to be followed throughout the Government.

Mr. CREIGHTON. I think the Board has taken the position for a long period of time that the Classification Act was not applicable to the Board but the Civil Service Commission ruled to the contrary.

Mr. THOMAS. They are not different from some other organizations I can mention that were created by Federal statute, financed by the taxpayers' money and when they pay off they become separate, independent organizations over and above everybody else.

If they get in trouble they run right back to mama, do they not?

Mr. CREIGHTON. I think that is right.

Mr. THOMAS. Excuse me. Go ahead, Mr. Chairman. We are familiar with your general facts.

INCREASES IN THE HOME LOAN BANKS

Mr. MCMURRAY. Increases were also reflected in the activities of the 11 Federal home loan banks. Total assets during fiscal 1962 increased by 24.1 percent reaching $4.2 billion. Capital stock, held

by members only, increased by 2.2 percent to $1.1 billion. This was a reduction in the rate of increase in capital stock—last year's increase was 12.9 percent—and resulted from the passage of Public Law 87–210 in September 1961 which reduced requirements for stock ownership of members from 2 percent to 1 percent of the aggregate of the unpaid principal of the subscriber's home-mortgage loans. Total capital increased by 3.1 percent reaching $1.2 billion, and legal reserve increased by 15.8 percent to $63.4 million. Net income of the 11 banks for the fiscal year increased by 13.1 percent reaching $43.3 million. Loans or advances to members in fiscal 1962 aggregated $3.6 billion, an increase of $1.4 billion or 63 percent over the peak figure established the previous year. Repayments totaled $2.7 billion, an increase of 28 percent over fiscal 1961. Loans or advances outstanding at June 30, 1962, increased by 48 percent to a peak figure of $2.8 billion. Offerings to the public of consolidated obligations of the 11 banks during fiscal 1962 aggregated $2.4 billion, a peak figure and an increase of 97 percent over fiscal 1961. The balance outstanding at June 30, 1962, reflected an increase of 70 percent over the balance at June 30, 1961.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Federal Savings and Loan Insurance Corporation membership increased by 107 during fiscal 1962 reaching 4,267. During the same period members' combined assets increased by 15 percent to $83.4 billion. Their reserves and undivided profits increased by 14.7 percent to $5.7 billion.

Mortgage loans made by the membership in fiscal 1962 aggregated $18.6 billion. This figure broke the record made the previous year by 25.2 percent.

The Corporation's assets increased during fiscal 1962 by 53.8 percent reaching $667.2 million at June 30, 1962. Its net income increased by 8.4 percent to $61.1 million at June 30, 1962. Its reserve for insurance losses during the same period increased by 56 percent to $639.5 million; this accelerated increase in the growth of the Corporation's reserve for insurance losses results from the passage of Public Law 87–210 in September 1961 which revised the general reserve requirements of the Corporation from 5 percent to 2 percent of all insured accounts plus all creditor obligations of all insured institutions. In addition, under this law, each insured institution is required 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. These prepayments will be credited to a secondary reserve. Based on current projections, it is estimated that the combined total of the general and the secondary reserve will reach 2 percent or $3.4 billion by December 31, 1970.

The Corporation's potential liability increased by 14.5 percent in fiscal 1962 reaching $71.8 billion at June 30, 1962; the Corporation's insurance losses in fiscal 1962 were $3.2 million.

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Mr. McMURRAY. The statistics showing the growth of the savings and loan industry and the Bank Board's increasing responsibility you are familiar with. If I may, sir, I would like to get to the budget, itself.

Mr. THOMAS. Do whatever you like.

PROSPECTS FOR 1964

Mr. McMURRAY. In summarizing the overall growth of the industry in spite of the fact that the early part of the year, after regulation Q action by the Federal Reserve Board, there was a good deal of concern about what would happen to savings in the savings and loan associations. Yet the saving and loan associations all had new records of savings and mortgage loans, et cetera, and the commitments for mortgages are at present very good so that the saving and loan industry has had a very properous year and can look forward to a very prosperous year ahead.

The Board's budget assumptions for both the current fiscal year and for fiscal 1964 allow for 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. The rate of growth is expected to be equal to or greater than that experienced in fiscal 1962.

The Board's 1964 budget estimates are submitted as business-type budgets in three parts, including Board and staff offices, 240 positions, $2,470,000; Division of Examination and Supervision, 1,002 positions, $12,934,000; Federal Savings and Loan Insurance Corporation 127 positions, $1,335,000, for a total of 1,369 positions and $16,739,000.

Mr. THOMAS. What part of the Board's activity is under limitation?

Mr. CORCORAN. The Board and staff offices is all administrative and is under limitation.

Mr. McMURRAY. The estimates are based on the need to keep all workloads in a current status and on the assumption that there will be no basic change in economic conditions during the budget year. They provide for an increase in overall employment over the current fiscal year of 49 positions. Of these 30 are in the Board and staff offices, 8 in the Division of Examination and Supervision and 11 are in the Federal Savings and Loan Insurance Corporation.

STREAMLINING OF EXAMINATION PROCEDURE

At this point I would like to explain the reason for the small increase in the number of positions requested for the Division of Examination and Supervision compared to previous years; last year we requested as you will recall, an increase of 63 positions. Since coming to the Board I have made it a major goal to streamline our examination procedure toward the end that we focus our examiners' attention on matters of importance and consequence rather than on minutia.

The Board has spent a considerable amount of its time studying and discussing these matters with the task force, the Advisory Council, the conference of our bank presidents and the staff. Accordingly, I am glad to report that we have made considerable progress in improving the techniques of examining, reducing routine procedures, and in general speeding up the examination.

We have encouraged in every way we can the utilization of outside auditors and the internal audit system. In accordance with this policy the Office of Examinations has modified many of its procedures to give full credit for the use of these auditors. Review of examining procedures is a continuing project. We are persistently searching for new methods and more efficient performance by the examining staff in order to improve the quality of the examination. We have made considerable progress under the very able direction of Larry Walters, our Director of Examinations. This progress, when applied to our 1964 examining workload will, it is believed, after allowing for an increase averaging about 15 percent in the assets of insured associations, permit the examination of the larger associations with very little increase in the average examination time.

INCREASE IN FUNDS AND POSITIONS REQUESTED

Provision is also made for an increase in funds over the current fiscal year of $1,752,000. Of the increase, $395,000 is in the Board and staff offices, $1,184,000 is in the Division of Examination and Supervision, and $173,000 is in the Federal Savings and Loan Insurance Corporation. In percentage terms there is an overall increase in positions of 3.7 percent, and in funds of 11.7 percent.

All the increases are explained and justified in detail in our submission. They result primarily from the continuing expansion of the savings and loan business. The expansion has its impact on nearly all offices and divisions of the Agency.

I thank you, gentlemen, for the opportunity of making these comments. My associates and I shall be glad to answer any questions you may wish to ask.

STATUS OF EXAMINATIONS

Mr. THOMAS. Mr. Chairman, let's get down to cases. How often do you get around to the banks? Are you giving each an examination under the insurance system? You had it down to 13 months last year.

Mr. MCMURRAY. As I recall the figure, it is within 12 months. We only have a few that go over a year.

Is that correct, Mr. Walters?

Mr. WALTERS. That is correct. We had six Federals that went over 12 months out of the total. We had about 43 State associations that went beyond the 12-month category because of our joint examination arrangements. We actually averaged 11.2 months for Federals last year and 11.9 months for State associations.

Mr. THOMAS. What is the result of your examination, Mr. Walters? How many of them do you find in bad condition? What is the percentage of irregularities you find in your Federals and State if any?

Mr. WALTERS. I would say there is very little difference in the overall percentage between Federal and State operations. We have had some serious problems in the State associations, probably more serious in a few instances than we have in Federals but in the aggregate number I would say there is not too much difference between the two operations.

NATURE OF DEFICIENCIES FOUND IN EXAMINATIONS

Mr. THOMAS. What is the nature of some of the deficiencies you have found?

Mr. WALTERS. The deficiencies primarily in the more serious cases have been in the lending practices of the institution. That is the area in which, of course, we are concentrating more and more and getting away more and more from the technical aspects of examination which we had in the past. That was the chairman's objective and undoubtedly it will continue to be.

In the lending activities, by virtue of the pressures——

Mr. THOMAS. What were some of the defects or practices?

Mr. WALTERS. Overlending, overappraising, making loans for larger than the actual value.

Mr. THOMAS. Does that mean you are spot-checking some of the loans and mortgages, then?

Mr. WALTERS. Actually, under the new program which the Board just adopted we have a test appraisal program which defines the criteria which each institution must meet, having to do with all phases of their operations and if on the basis of the application of those criteria——

Mr. THOMAS. How are you going to lay down a criteria on *a* piece of property in Podunk, Tex., without going looking at the property?

Mr. WALTERS. It is the aggregate of their entire operations. Those properties, if they are overlending, will show up in a number of aspects or phases of the operation. In other words, in these criteria we look at the delinquent loans, the extent of foreclosures and that type of thing. We also look at the reserves of the institution, the losses that the institution has suffered, the dividend rates, pressures which are brought about by competition for savings.

CONTROL OF DIVIDEND RATE

Mr. THOMAS. Do you have any limitations on the amount of interest and dividends they can pay? I notice some go up to 4, 4¼, and maybe 4½. Here is one in the same town which wants to stay at 3½.

Mr. WALTERS. There is no limitation. The Board does not have that authority as I understand it.

Mr. THOMAS. Are you sure about that?

Mr. MCMURRAY. There is no limitation or no authority of the Board to put a ceiling on dividends. It may be unsafe and unsound if they are paying dividends in excess of what they should pay or a condition limiting dividends to that prevailing in a community may be imposed when insurance is granted.

Mr. THOMAS. What is the remedy then as far as the Board and Examination and Insurance Division is concerned?

You have a three-way hitch or a three-way break, have you not?

SPOT APPRAISALS

Mr. MCMURRAY. Of course, if I may say something in answer to your first question and then answer this, all these indications that Mr. Walters has referred to, higher dividends, higher fees, delinquencies, are signs that perhaps an institution is reaching out too far

for risky loans and in that case they might get a local appraiser in the area to which you referred, he would be able to tell within reason if the particular appraisal was a fair appraisal. It is very difficult to be precise in appraising. It is not a science in the same sense that we know science in other fields, but you can certainly know when appraisals are way out of line in the particular area.

I am sure in your own area you can tell for example the value of a house, even as a nonexpert, that is, whether a house is worth approximately $15,000 or $25,000. You do not even have to be an expert but the Board generally finds that when an unsound situation or practice is called to the attention of the Association's Board of Directors, generally it takes such steps as are recommended and which they themselves, from their own knowledge, would take to correct the situation or practice. From my experience anyway and from what I can gather from past experience, when a situation is called to a Board of Directors' attention and the officers it is usually corrected. In some cases they are reluctant. A great deal of persuasion has to be used. Of course, the Board has only the authority really ultimately to take them over, or in the case of an insured association, to terminate insurance, which are very drastic measures and which have been used in only a few cases.

Outside of that we have what we refer to as moral suasion. I think one of the legislative measures we are working on, to amend 5d1 and 5d2, would give the Board authority to issue cease and desist orders to take care of more specific situations. This is one of the problems we are working on.

We have the H-bomb, so to speak, but do not have a shotgun. We need the shotgun.

SUPERVISORY CASES IN 1963

Mr. THOMAS. Dr. Husband, did you take over any sick banks during fiscal year 1963? How many do you have in liquidation this year or in the past 2 years?

Mr. HUSBAND. In the past 2 years we have had two embezzlement cases that were settled by our making the institutions whole.

Mr. THOMAS. You did not have to close them?

Mr. HUSBAND. No, sir. Both the managing officers are now serving time in the penitentiary. Then we had a third case which was where we had a longstanding *Long Beach* case, where we had a loan settlement.

Mr. THOMAS. Did you wind up the *Long Beach* case?

Mr. HUSBAND. We have taken over the assets and we are now in the process of trying to get title to a block of it and work it out.

Mr. THOMAS. It has not been liquidated then?

Mr. HUSBAND. As far as the relationship between Long Beach and the Board is concerned, that part is settled.

Mr. THOMAS. You have not had to liquidate a single institution in the past 2 years?

Mr. HUSBAND. No, sir.

Mr. THOMAS. That is quite a remarkable record.

Mr. Chairman, the FHA and the Veterans Administration have been plagued in the past 2 years with foreclosures. What is your record? What does Mr. Walters have to say about that?

Mr. McMURRAY. The record of foreclosures of the savings and loan associations? I have only general statistics on that.

Mr. TORRANCE. This is for the third quarter of calendar 1962. The series just started; we just started collecting them.

Mr. THOMAS. Is this in your justification?

Mr. McMURRAY. No, sir.

Mr. THOMAS. Read it into the record.

Mr. McMURRAY. This is one of the new statistics we have developed.

Mr. THOMAS. Read it into the record.

Mr. McMURRAY. Yes, sir.

The number of real estate foreclosures by real estate operators for the third quarter of 1962; by Federal home loan bank districts and in our districts we have 11 banks. We have it broken down by number, FHA, VA, and conventional and total.

The total for all districts for FHA, 1,248; VA, 1,460; conventional, 6,252, for a total of 8,960.

Then we have the values for that.

Mr. THOMAS. Let us forget FHA and VA and stay with your own organization.

What is your experience now in foreclosures throughout the system?

Mr. McMURRAY. Since we do not have statistics for the system alone except the first quarterly information which I mentioned——

Mr. THOMAS. Do you have a total figure throughout the system of the number of foreclosures for fiscal years 1961, 1962, and the first 6 months of 1963?

Mr. McMURRAY. No, sir; not within the system. This is the first statistic within the system. We have general statistics on conventional loans, and these would indicate, since we do roughly 43 percent of the conventional financing, what is happening within our system. I have such statistics and I would be glad to furnish them.

Mr. OSTERTAG. For one reason or another I have in mind the figure of 86,000 as the number of foreclosures on small business and residential mortgages for the year of 1962. Is that anywhere near correct? And is it applicable to the calendar or fiscal year?

Mr. TORRANCE. Yes, sir. That is a preliminary figure for calendar year 1962.

Mr. OSTERTAG. I believe that this is the highest record of such foreclosures in 23 years.

Mr. THOMAS. Mr. Ostertag has that figure in the record, but he requests that you insert a table on that in the record at this point. I assume that you have the information available from which you can get this in shape by districts for 1961 and 1962 and the first 6 months of 1963 for the total foreclosures by districts. Can you do that without too much trouble?

Mr. TORRANCE. Not by Federal home loan bank districts. The volume has been too small.

Mr. THOMAS. What shape can you put it in, the total figure for the whole system?

Mr. TORRANCE. We can give the total figure for the third quarter of 1962, the only one we can put in by districts.

Mr. OSTERTAG. Do you have the total figures by years?

Mr. TORRANCE. This is a new series.

Mr. MCMURRAY. All we had before was foreclosures for all over the country, no matter what kind of institution. Up until this time we have not had statistics within——

Mr. THOMAS. You certainly have foreclosures within your own organization?

Mr. MCMURRAY. Yes, we are getting such information now, but did not have it before.

Mr. THOMAS. Give us whatever information you have in table form.

(The following information was supplied for the record:)

Number of real estate foreclosure actions, by insured savings and loan associations, for 3d quarter calendar year 1962,[1] by Federal home loan districts

FHLB district	Number			
	FHA	VA	Conventional	Total
All districts	1,248	1,460	6,252	8,960
Boston	47	83	96	226
New York	225	257	213	695
Pittsburgh	82	188	316	586
Greensboro	170	250	749	1,169
Cincinnati	65	61	602	728
Indianapolis	168	61	271	500
Chicago	45	82	690	817
Des Moines	84	90	240	414
Little Rock	194	95	396	685
Topeka	88	84	191	363
San Francisco	80	209	2,488	2,777

[1] Information not available prior to July 1, 1962.

NOTE.—Includes voluntary deeds of sale.

NONFARM REAL ESTATE FORECLOSURE REPORT, THIRD QUARTER, CALENDAR YEAR 1962

The number of foreclosures on nonfarm properties totaled 21,808 for the third quarter of 1962 calendar year. Although remaining at about the same level as in the previous quarter, the aggregate for July, August, and September was up 18 percent over the same period in 1961.

Estimated number of nonfarm foreclosures

	1st quarter	2d quarter	3d quarter	1st 9 months
1935	60,924	62,499	54,207	177,630
1940	18,695	20,173	18,746	57,614
1945	3,424	3,402	2,893	9,719
1950	5,523	5,758	5,257	16,538
1955	7,089	7,765	6,757	21,611
1958	9,682	10,831	11,112	31,625
1959	11,041	11,663	10,683	33,387
1960	11,245	12,433	13,450	37,128
1961	16,891	18,608	18,508	54,007
1962	20,926	21,665	21,808	64,399
Percent change:				
1961–62	+24	+16	+18	+19
1940–62	+12	+7	+16	+12

For the first 9 months of 1962 foreclosure cases numbered 64,399—19 percent above the total for the same period last year and 12 percent greater than the January–September interval in 1940. According to trends so far this year, nonfarm foreclosures for the year 1962 will approximate 86,000.

Although the number of foreclosures has more than tripled since 1950, the annual rate of foreclosures per 1,000 mortgaged homes has increased from 1.72 to less than 4 per 1,000 mortgaged homes. At the peak of the depression in 1933, the rate of foreclosures was about 35 per thousand, or 9 times the current rate.

ESTIMATED NONFARM REAL ESTATE FORECLOSURES, 1926, 3D QUARTER 1962, ALL TYPES OF LENDERS

Annual totals

Year:	*Number*	Year—Continued	*Number*
1926	68,100	1942	41,997
1927	91,000	1943	25,281
1928	116,000	1944	17,153
1929	134,900	1945	12,706
1930	150,000	1946	10,453
1931	193,800	1947	10,559
1932	248,700	1948	13,052
1933	252,400	1949	17,635
1934	230,350	1950	21,537
1935	228,713	1951	18,141
1936	185,439	1952	18,135
1937	151,366	1953	21,473
1938	118,357	1954	26,211
1939	100,410	1955	28,529
1940	75,556	1956	30,963
1941	58,559		

Monthly data

	1957	1958	1959	1960	1961	1962
Total	34,204	42,367	44,075	51,353	73,074	
January	2,771	3,276	3,801	3,630	5,523	7,103
February	2,473	2,929	3,307	3,470	5,096	6,382
March	2,921	3,477	3,933	4,145	6,272	7,441
April	2,983	3,661	3,841	3,918	5,942	7,055
May	2,894	3,507	3,876	4,001	6,090	7,214
June	2,745	3,663	3,946	4,514	6,576	7,396
July	2,839	3,774	3,768	4,289	5,946	7,206
August	2,852	3,518	3,494	4,347	6,348	7,568
September	2,979	3,820	3,421	4,814	6,214	7,034
October	3,018	3,881	3,583	4,512	6,352	
November	2,852	3,339	3,378	4,740	6,564	
December	2,877	3,522	3,727	4,973	6,151	

NOTE.—Estimates of number of foreclosures in the United States (except Alaska and Hawaii) in all nonfarm areas are based on data reported from approximately 1,700 counties, cities, townships, or other Government divisions, and measure the number of properties acquired through foreclosure proceedings. Reporting areas include approximately three-fifths of all nonfarm 1-family dwelling units. Voluntary deeds of sale in lieu of foreclosure are not included, nor are defaults on real estate contracts.

COMPARISON OF FORECLOSURES WITH VA AND FHA

Mr. THOMAS. How does your record of foreclosures compare with that of VA and FHA? Do you have any horseback opinion on that?

Mr. MCMURRAY. Let me first explain this because it would appear from the third quarter statistics I read to you that our conventional foreclosures are higher than FHA and VA. These are only the FHA and VA mortgages within the bank system. As you know, most of our institutions make conventional loans, not VA and FHA so the percentage of FHA and VA to the total portfolio is maybe about 17 percent of the total.

If you looked at these figures you would think that the conventional foreclosures were higher than the FHA and VA.

As to the horseback opinion, I thought we had some indication of that in this sheet.

Is there any breakdown of all foreclosures, by the type of foreclosures?

Mr. TORRANCE. We can get a straight deduction of the operating data from FHA and VA. They are not quite comparable with the data we have for the Nation. The national data are compiled from county records and they are not identified in the county records as to type.

STATE AND FEDERAL FORECLOSURES

Mr. THOMAS. Is there any appreciable difference in the number of foreclosures in the hands of Federal institutions and State institutions?

Mr. TORRANCE. We do not have any clearcut evidence; no, sir.

Mr. THOMAS. What about it, Dr. Husband?

Mr. HUSBAND. I know of no evidence bearing on that, Congressman.

Mr. THOMAS. It ought not to be a question of evidence but cold facts.

Mr. OSTERTAG. What does the record show?

Mr. MCMURRAY. In the FHA you had foreclosures and you have some——

Mr. THOMAS. Are there more foreclosures in Federal institutions than there are in State institutions? You have twice as many State institutions as you do Federal institutions but what about the proportion of foreclosures as between the two? Is it higher in the Federal or is it higher in the State, or is it just about the same?

Mr. MCMURRAY. This information is not available.

Mr. TORRANCE. We may be able to break this one-quarter down by Federal and State; we are not sure.

Mr. MCMURRAY. Just looking at which district banks have more State associations than Federal association, I myself would think that there would not be any difference between Federal and State generally because it is pretty much an area problem, to some extent anyway. In some States, like Texas, you probably have more State associations than you have Federal associations. Taking the proportion, that would probably work out in ratio about the same, I would guess. I think in the process we could give the Congressman the specific answer to his question, but we do not really know if there is or is not, as was indicated by Mr. Walters—and from my experience in some of our problems, we have more problem cases with some of the State associations than we have with Federal associations. That does not in any way indicate that the State associations are, generally speaking, less well managed or less soundly run than the Federals. It just happens that you get a relatively few cases, and it would not be fair to generalize from them.

OFFICE OF RESEARCH AND HOME FINANCE

Mr. THOMAS. If you do not mind, we are trying to take a little burden off you, but apparently we are adding to it.

I notice under the Office of Research program going on something that amazed me which was to find perhaps the highest civil service

classification was for research. I notice you have got your Examining Division on a parity but I understand that is quite recent. Your Insurance Division is still underneath it but what is the nature of the research going on and why the high priority?

Mr. McMurray. I have a list of some of our studies. You will recall, Congressman, I guess it was the second time I appeared before this committee, when we specifically requested that authorization and appropriation for the GS–18 Research Director. We also requested a GS–18 for a Director of Examinations and Supervision and your committee generously gave us what we requested. Since January 1962 some of the projects that have been undertaken by the Office of Research and Home Finance have been a study of the liquidity practices of the Federal home loan banks system; a study of branching policy in the savings and loan field; the analysis of borrowing practices of member associations; proposed revision of the liquidity practices of the Federal home loan banks, recommendations growing out of which have been adopted by the Board; a study of the portfolio policy of the Federal Savings and Loan Insurance Corporation; a study of the participation loan program; and evaluation of policies in the requirement of reserve, surplus, and capital stock for stock savings and loan associations.

Then, of course, we have periodic reviews of the economy, mortgage, and housing markets, and revision of liquidity practices of savings and loan associations which is still in the process of being studied.

Some of the things we have in mind for 1963 are the evaluation of the need for, and the impact of, the Federal home loan bank advances on the lending activity of member institutions.

Factors influencing the demand for advances and techniques for estimating requirements for advances; principles and conditions affecting the liquidity of the Federal home loan banks; portfolio practices of the Federal home loan banks and the Federal Savings and Loan Insurance Corporation; flow of funds through the capital market and its impact on mortgage demand and the availability of mortgage funds; evaluation of the adequacy of mortgage data and techniques for refining the collection of data; the influence of general business conditions on demand for housing; investigation of other variables affecting housing need demand; analysis and evaluation of statistics collected by the Board, the Federal Savings and Loan Insurance Corporation, and other agencies and institutions relating to the activity of financial institutions in the mortgage and housing markets; analysis and evaluation of the economic factors influencing the granting of new charters and branches, and the approval of mergers; the influence of changes in interest rates on savings, liquid assets, and home purchase plans, and analysis of factors leading to foreclosures on real estate and changes in the volume of foreclosures.

VALUE OF RESEARCH STUDIES

Mr. Thomas. Do you put a higher priority on those studies than you do on the management of the Inspection Division and your Insurance Corporation?

Mr. McMurray. No, sir. As a matter of fact, I would say we have a high priority on everything. That is what keeps us so busy.

We work in many directions and, of course, this has carried on over the years and goes into the examination, supervision, and management, but there has not been in the past sufficient consideration given to some of the problems that went on as to how things happened. Also there was not sufficient knowledge of why and what the effects were of some of the things that were taking place. In this area, a great deal of judgment is required as to what to do and, although the Board works very hard, it is very hard to do enough studying and enough thinking on these major policy questions to give us sufficient intelligence to make the right judgments.

I would say that the research has been extremely helpful to me, and, I believe, to the other members of the Board, and very helpful to the whole system, and I think it is making the Board much more effective as a body in terms of its overall supervision and management and leadership of the industry. For example, as to the whole question of liquidity, in 1955 a real problem developed because of the way the system was operating: there was a question of whether the banks could meet their responsibilities. I do not think this will ever happen again because we are much more informed of what the problem was then and what the potential problems may be under certain circumstances.

Mr. THOMAS. Are there any general questions?

RATE OF FORECLOSURES

Mr. OSTERTAG. Mr. Chairman, I would like to return to the subject of foreclosures.

Is it fair to state that there has been a rapid increase in the total number of foreclosures?

Mr. MCMURRAY. The total number of nonfarm foreclosures—for all mortgage lenders and not just for our own system—for the first three quarters of 1961 were 54,062; 64,399, and the third quarter, which is the most recent we have, 21,808, as compared with 18,508 in 1961.

If you want to go back to 1955, there were only 6,757 for the third quarter.

Mr. OSTERTAG. In other words, there has been a substantial increase each year?

Mr. MCMURRAY. Yes, sir.

Mr. OSTERTAG. We have now reached the highest number to date?

Mr. MCMURRAY. In recent postwar years. In 1935 we had statistics where, in the third quarter of 1935, there were 54,000 as against 21,000 in 1962. It is a high point in the postwar period; yes, sir.

CAUSES OF FORECLOSURES

Mr. OSTERTAG. Mr. Chairman, to what do you attribute this sharp increase in foreclosures? What do you regard as the real cause?

Mr. MCMURRAY. There are a number of causes, I would guess. First of all, I would think we are catching up with the demand, No. 1.

Mr. OSTERTAG. In other words, there is no shortage of housing?

Mr. MCMURRAY. The supply of housing has increased to the point where you are getting into a buyer's market and up until the last 2

years, I would say you were in a seller's market. The other thing, of course, is that we had inflation and that has ceased, I would say. We do not have a situation where the prices of houses are going up because of general inflation.

The result is that when people had difficulties meeting their finance charges in the past, the value of the house had gone up and they could sell it and get out. Today when the values do not go up and they are in trouble they are not able to sell it at a profit and therefore it goes to foreclosure.

I also want to say we have much more liberal financing, especially in the Federal guarantee and insured programs and therefore there is not as much equity in the houses as there used to be, so that is another contributing factor. However, I must say that while this is a sharp increase and something we are very concerned about and which we watch very carefully, we are trying to carry out such policies as will reduce these kinds of figures. It still has not reached the point where we feel it is an emergency or anything of that nature.

It is something we hope will certainly level off, if not go down. It is not of the proportion where we have to be alarmed, if I may use that adjective. It is something we must be concerned about though, especially in some of the problem areas. We had, for example, foreclosures in the Miami area and that situation has greatly improved. We have some sections of California and there the situation is greatly improved. One of the advantages of statistics of this kind and of research is that this directs attention to these problem areas. In the past, the problem occurred and no one knew about it until it was too late. Here we are watching it and trying to take such measures to change lending practices, caution the institutions, and bring to their attention the problem so as to prevent this very thing from happening.

Mr. OSTERTAG. Your reasoning is very interesting and I believe you have painted a clear picture of what actually exists, but how about small business? Small business foreclosures would not be in line with the description you have given as to the causes applicable to residential foreclosures.

Mr. MCMURRAY. I really hesitate to give you any information on that. I would be surprised, though, that you would not find some increase in business foreclosures for some of the same reasons. There they have a lack of inflation and increasing supply of producers and so on, but I am not an expert nor do I have sufficient knowledge to answer your question intelligently.

HANDLING THE FORECLOSURE PROBLEM

Mr. OSTERTAG. In connection with this overall problem, and it is a problem and one that I would say is growing, even though you point out it has not reached an alarming state, however, it could do so and it is certainly moving in that direction. I wondered if, by virtue of your responsibilities in the financial world, what, if anything, can be done? What is the answer to the problem? How can we meet this problem? Should we stimulate inflation?

Mr. MCMURRAY. No, sir. One thing I think is happening is that in the field of homebuilding, your competition is causing homebuilders to give a lot more value for the money. I think the average lender is a lot more cautious in terms of the kind of property he grants mort-

gages on and I think he looks a lot more carefully at the credit worthiness of the mortgagor. I think all of this will tend to reduce the problem.

I think some of the problems, however, are beyond the control of the individual institution or its officers, or even beyond us. They are, rather, national problems which you in Congress will be dealing with.

The President referred to the reduction in taxes and the effect that would have on the economy and I think a full employment economy, or relatively full employment economy, would solve many of the problems. As you know, much of the foreclosures result from unemployment in some of the areas. This is one of the contributing factors.

However, I myself look to the future, and by that I mean more or less the immediate future, with considerable optimism. I think that this country is expanding at a rate of 35 million new human beings coming on this earth in the next 10 years, and with the great expansion in our industry, shifting to new areas, I think all these indicate we do not have to be concerned if we do our job. I think we will bring ourselves around to where we will have lots less unemployment and better payrolls and that is the thing we have to be concerned about in terms of financing our houses.

These are beyond the control of the Board or an individual industry. Everybody has to do his own job and we are trying to do our job to take care of the problem as we see it; that is one of the questions we are concerned about.

For example, the Home Loan Bank system studies how its advances are used, and so on, to see what it can do to help the economy at the proper time and to what extent; and at times when they are building too much, we ought to cut back. These are difficult decisions and are some of the things to which we are giving a lot of thought.

Mr. THOMAS. We certainly do thank you for your very fine statement and it has been most enlightening and you have given the committee a lot of information that we appreciate.

Mr. MCMURRAY. Thank you very much, Mr. Chairman and members.

Mr. THOMAS. Mr. Evins, will you and Mr. Ostertag build the record?

PROGRAM HIGHLIGHTS

Mr. EVINS. Mr. Reporter, place in the record pages 5 through 11, as well as page 14.

There is a wealth of valuable material here. I do not know how extensive the chairman wishes a lot of this repeated.

Mr. THOMAS. There is some repetition from division to division, but under each separate category they give the volume of work and statistical data. It is all interesting.

(The pages referred to follow:)

FEDERAL HOME LOAN BANK BOARD

Program highlights

[Dollars in millions]

Federal Home Loan Bank System	1962 actual	1963 estimate	1964 estimate
Members (June 30):			
Number	4,866	4,965	5,070
Assets	$86,800	$99,000	$111,900
Savings (shares)	$74,800	$84,600	$95,000
Mortgage loans	$72,900	$83,300	$94,300
Insured	4,267	4,380	4,499
Regional banks: Advances outstanding	$2,770	$2,500	$2,700

Outline of functions

The three agencies under the Federal Home Loan Bank Board—the Federal Home Loan Bank System, the system of 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 association, 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 home seeker and the small saver and investor, the Federal Home 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 provide advances to these member instiutions to meet withdrawal demands as well as seasonal and expansionary needs for additional home-mortage funds. Through the use of interbank deposits, the System maintains an adequate flow of home loan funds into every locality. October 15, 1962, marked the 30th 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 cooperative banks or building and loan or homestead associations. Included also in the membership of the Federal Home Loan Bank System are a number of mutual savings banks.

The importance of the Federal Home Loan Bank System is indicated by the fact that at June 30, 1962, the combined resources of its member institutions totaled almost $87 billion (the December 31, 1962, figure is estimated at over $93 billion) and that in fiscal year 1962 its savings and loan members made home loans amounting to over $18.9 billion; for calendar year 1962 the figure is estimated at $20.5 billion.

Located in most cities, suburban areas, and towns throughout the United States, the System's member institutions serve nearly 41 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 savings and home-financing institutions during their 131-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, 1962, there were 1,922 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, 1962, totaled over $46.6 billion. Federal savings and loan associations are in operation in every State and 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 similiar 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, 1962, was 4,267; their combined assets were $83.4 billion.

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

Introduction

The Federal Home Loan Bank Board is primarily a regulatory and supervisory agency in the savings and home-financing field. It also issues charters for Federal savings and loan asociations, insures savings or share accounts in Federal savings and loan associations, and in approved State-chartered savings and loan or building and loan associations and associations of the savings and loan type.

The 1964 budgets of the Federal Home Loan Board, the Division of Examination and Supervision, and the Federal Savings and Loan Insurance Corporation are based on the need for maintaining all operations in a current status, and on the assumption that there will be no basic change in economic conditions during the budget year.

The number, size, and business activity of the institutions supervised by the Board continue to increase. The following table relating to member savings and loan asociations shows the number, assets, loans made during year, and net inflow of new savings at June 30, 1961, and June 30, 1962; it also shows the increases over 1961 in dollar and percentage terms:

[Dollars in billions]

Description	Fiscal 1961	Fiscal 1962	Increase over 1961	Percent
Member savings and loan associations	4,755	4,838	83	2
Total assets at June 30	$74.6	$85.7	$11.1	15
Loans made during year	$15.2	[1] $18.9	$3.7	24
Net inflow of new savings	$8.2	$8.7	$.5	6

[1] Represents 43 percent of the Nation's home financing.

As indicated, the above figures reflect increases in membership, total assets, loans, and net savings. This level of activity and rate of growth, expected to continue during the current fiscal year, and fiscal 1964, increase the workloads of the Board, the Division of Examination and Supervision, and the Insurance Corporation to the extent that increases in both personal services and other expenses are necessary and are provided for in fiscal 1964.

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.

A comparative summary of the budget estimates for 1964, the revised estimates for the current fiscal year, and actual expenses for fiscal 1962 is shown in the following two tables:

Comparative summary of positions and man-years

Unit	1962 actual		1963 estimate		1964 estimate	
	Positions	Man-years	Positions	Man-years	Positions	Man-years
Board and staff offices	190	173.0	210	196.2	240	220.7
Federal Savings and Loan Insurance Corporation	109	89.6	116	108.8	127	122.5
Division of Examination and Supervision	912	875.7	994	931.7	1,002	974.2
Total	1,211	1,138.3	1,320	1,236.7	1,369	1,317.4

Comparative summary of expenses

Unit	1962 actual	1963 estimate	1964 estimate
Administrative expenses:			
Board and staff offices	$1,684,052	[1] $2,075,000	$2,470,000
Federal Savings and Loan Insurance Corporation	945,063	[1] 1,162,000	1,335,000
Total	2,629,115	3,237,000	3,805,000
Nonadministrative expenses: Division of Examination and Supervision	9,948,959	[1] 11,750,000	12,934,000
Grand total	12,578,074	14,987,000	16,739,000

[1] Includes proposed supplemental due to Public Law 87-793 approved Oct. 11, 1962.

BOARD AND STAFF OFFICES

The following comparative summary shows the estimates of administrative expenses of the board and staff offices for 1964, the revised estimates for the current fiscal year, and actual expenses for 1962:

Description	1962 actual	1963 estimate	1964 estimate
Positions	190.0	210.0	240.0
Man-years	173.0	196.2	220.7
Personnel compensation	$1,337,105	$1,571,700	$1,894,500
Personnel benefits	96,542	119,300	143,000
Total personal services and benefits	1,433,647	1,691,000	2,037,500
Contractual services and supplies	332,824	404,000	472,500
Acquisition of capital assets	24,526	60,000	40,000
Total gross expenses	1,790,997	2,155,000	2,550,000
Less reimbursements	106,945	80,000	80,000
Total net expenses	1,684,052	2,075,000	2,470,000
Proposed supplemental due to Public Law 87-793 approved Oct. 11, 1962		−37,500	
Actual, authorization, and estimate	1,684,052	2,037,500	2,470,000

As shown, the Federal Home Loan Bank Board requests authority to expend up to $2,470,000 for administrative expenses of the Board and its staff offices in fiscal 1964. The estimate reflects an increase in personnel of 30 positions or 24.5 man-years, and an increase in funds of $395,000 when compared with the estimated expenses for the current fiscal year; in percentage terms, increases of 14.3 percent in positions and 19 percent in funds are reflected.

Of the increase in funds, $322,800 is in personnel compensation, $23,700 in personnel benefits, $68,500 in contractual services and supplies, less $20,000 in acquisition of capital assets.

Personal services and benefits.—The need for the 30 new positions requested is justified in the departmental justifications of the offices and divisions involved which are: Offices of the Chairman and Board Members, 6; Office of Research and Home Finance, 5; Office of Information, 1; Division of Federal Savings and Loan Operations, 3; Office of the Secretary, 6; Office of the Director of Audits, 1; Division of Personnel, 2; Division of Federal Home Loan Bank Operations, 2, and Office of the General Counsel, 4.

All other expenses.—The major portion of the increase in all other expenses is in the items of rent, communications, and utilities, $51,500; printing and reproduction, $10,000; and supplies and materials, $5,000; there is a decrease in equipment of $20,000. Review and analysis of all the items included in all other expenses together with justification of the need for the increases requested will be found beginning on page 68.

Reimbursements.—A table showing reimbursements to the Board for services rendered, for the 3 years included in the budget, will be found on page 77.

Sources of funds

The funds used to pay the administrative expenses of the Board are derived from the following sources:

Source	1962 actual	1963 estimate	1964 estimate
By assessments upon—			
Federal home loan banks	$808,345	$996,000	$1,185,600
Federal Savings and Loan Insurance Corporation	707,302	871,500	1,037,400
Division of Examination and Supervision (FHLBB)	168,405	207,500	247,000
Total funds	1,684,052	2,075,000	2,470,000

Distribution of the 1964 expenses among the three sources shown is based on the following formula which became effective in fiscal 1952. Of the total, 10 percent is charged to the Division of Examination and Supervision, 42 percent to the Insurance Corporation, and 48 percent to the banks. The percentage for the Division of Examinations and Supervision is based on past experience. The respective percentages for the Insurance Corporation and the banks are based on the ratio of the membership of each one to the combined membership of the Insurance Corporation and the bank system at June 30,1962.

[Dollars in millions]

Members	June 30, 1961		June 30, 1962	
	Number	Assets	Number	Assets
Savings and loan associations:				
Federally chartered	1,885	$40,994	1,922	$46,644
State chartered:				
Insured	2,275	31,462	2,345	36,789
Uninsured	595	2,120	571	2,248
Mutual savings banks	23	573	28	1,113
Total, all members	4,778	75,149	4,866	86,794

Included in the 571 State-chartered uninsured institutions are 146 cooperative banks in the State of Massachusetts with aggregate assets of $1.2 billion. These institutions are members of the Massachusetts Share Insurance Fund of the Cooperative Central Bank.

Mortgage loans.—Loans made by member savings and loan associations for the years indicated are shown in the following table:

Loans made by member savings and loan associations

[In thousands]

Fiscal year	Savings and loan members of FHLB System	All insured associations
1946	$2,636,640	$2,214,731
1950	4,202,461	3,708,755
1955	10,297,586	9,820,255
1956	10,428,550	10,016,647
1957	9,838,118	9,531,973
1958	10,211,808	9,929,531
1959	14,146,648	13,800,093
1960	14,193,016	13,916,162
1961	15,161,982	14,893,578
1962	18,937,180	18,646,917
1963 [1]	20,100,000	19,800,000
1964 [1]	21,100,000	20,800,000

[1] Estimate.

As indicated, total mortgage loans made by member savings and loan associations in fiscal 1962, aggregated $18.9 billion. This figure broke the record set 1 year ago by $3.8 billion or 24.9 percent.

Mr. EVINS. Then we come to operating highlights at the middle of page 20 and loans to members on page 21.

Page 25 is a comparatively condensed statement and that should be included in the record.

(The pages referred to follow:)

CAPITAL STOCK

The U.S. Government provided the original capital of the banks by investing, over a period of years, $124,741,000. This investment was retired by the banks, over the years, at a rate in excess of statutory requirements. As of July 2, 1951, the Government's investment had been fully repaid. Since that time the capital stock of the 11 banks is owned by the member institutions only. Capital stock outstanding at June 30, 1962, was $1,115,678,825, an increase of $24,118,575 or 2.2 percent since last year. This reduction in the increase in capital stock, last year's increase was 12.9 percent, results from passage of Public Law 87-210 approved September 8, 1961, which reduced requirements for stock ownership from 2 percent to 1 percent of the aggregate of the unpaid principal of the subscriber's home mortgage loans.

Operating highlights.—A comparison of the operating highlights of the banks at June 30, 1960, 1961, and 1962, is afforded in the following table:

[In thousands]

Description	June 30, 1960	June 30, 1961	June 30, 1962
Assets	$3,061,381	$3,409,753	$4,231,302
Liabilities	2,014,916	2,227,572	3,012,874
Capital	1,046,465	1,182,181	1,218,427
Legal reserve	47,102	54,759	63,432
Net income for year	33,640	38,284	43,290
Investments (par)	1,179,370	1,454,060	1,340,065

As indicated, assets at June 30, 1962, reflected an increase for the fiscal year of $821.5 million or 24.1 percent; liabilities increased by $785.3 million or 35.2 percent, thus capital increased by $36.2 million or 3.1 percent. Legal reserve increased in the same period, by $8.7 million or 15.8 percent; net income for year increased by $5 million or 13.1 percent, and investments decreased by $113.9 million or 7.8 percent.

LOANS TO MEMBER INSTITUTIONS

The following table shows the trend in loans to member institutions, repayments, and amounts outstanding at June 30 each year for the years indicated:

[In millions]

Fiscal year	Loans	Repayments	Outstanding, June 30
1950	$364.3	$285.0	$442.7
1952	409.6	573.0	652.7
1953	646.9	581.4	718.3
1954	723.7	766.9	675.1
1955	1,058.4	716.6	1,016.9
1956	948.8	792.3	1,173.4
1957	931.9	1,026.0	1,079.4
1958	1,258.6	1,408.5	929.5
1959	1,622.4	1,014.8	1,537.1
1960	2,050.5	1,817.8	1,769.8
1961	2,199.3	2,099.7	1,869.4
1962	3,583.7	2,686.0	2,767.1

Loans or advances to member institutions in fiscal 1962 aggregated $3.6 billion, an increase of $1.4 billion or 63 percent over the peak figure established in fiscal 1961. Repayments aggregated $2.7 billion, an increase over last year of $0.6 billion or 27.9 percent. Loans outstanding at June 30, 1962, aggregated $2.8 billion, an increase over 1961 of $0.9 billion or 48 percent.

Consolidated statement of financial condition

	June 30, 1962	June 30, 1961	Increase (+) or decrease (−)
ASSETS			
Cash:			
On hand and in banks	$98,665,069.45	$71,737,266.85	$26,927,802.60
Treasurer of the United States	15,392,904.57	10,139,076.05	5,253,828.52
Total cash	114,057,974.02	81,876,342.90	32,181,631.12
Investments:			
U.S. Treasury obligations	1,325,171,983.19	1,447,322,896.33	−122,150,913.14
Securities held under resale agreement	9,910,000.00	0	9,910,000.00
Total investments	1,335,081,983.19	1,447,322,896.33	−112,240,913.14
Advances outstanding:			
Secured	1,785,488,254.44	1,303,800,777.64	481,687,476.80
Unsecured	981,643,545.47	565,638,515.34	416,005,030.13
Total advances outstanding	2,767,131,799.91	1,869,439,292.98	897,692,506.93
Accured interest receivable	13,605,951.34	10,461,566.22	3,144,385.12
Deferred charges	1,402,594.78	635,448.74	767,146.04
Other assets	21,464.26	17,729.29	3,734.97
Total assets	4,231,301,767.50	3,409,753,276.46	821,548,491.04
LIABILITIES AND CAPITAL			
Deposits:			
Members, time	963,169,509.21	969,293,899.43	−6,124,390.22
Members, demand	229,281,206.70	184,814,468.03	44,466,738.67
Applicants for membership	332,809.28	354,275.00	−21,465.72
Total deposits	1,192,783,525.19	1,154,462,642.46	38,320,882.73
Accrued interest payable	13,992,086.40	8,798,128.40	5,193,958.00
Accounts payable	184,718.97	265,918.53	−81,199.56
Dividends payable	8,644,512.60	8,796,847.35	−152,334.75
Unamortized bond premium	434,590.10	673,420.71	−238,830.61
Consolidated obligations [1]	1,796,835,000.00	1,054,575,000.00	742,260,000.00
Total liabilities	3,012,874,433.26	2,227,571,957.45	785,302,475.81
Total paid in on capital stock	1,115,678,825.00	1,091,560,250.00	24,118,575.00
Retained earnings:			
Legal reserve	63,432,214.97	54,759,209.57	8,673,005.40
Reserve for contingencies	0	2,487,657.50	−2,487,657.50
Undivided profits	39,316,294.27	33,374,201.94	5,942,092.33
Total retained earnings	102,748,509.24	90,621,069.01	12,127,440.23
Total capital	1,218,427,334.24	1,182,181,319.01	36,246,015.23
Total liabilities and capital	4,231,301,767.50	3,409,753,276.46	821,548,491.04

[1] Consolidated Federal home loan bank obligations issued by the Federal Home Loan Bank Board and now outstanding are the joint and several obligations of all Federal home loan banks.

Mr. EVINS. You told us how many new institutions had been chartered in the year, did you not, Mr. Chairman?

Mr. MCMURRAY. Yes, sir.

ADMINISTRATIVE EXPENSES

Mr. EVINS. We then come to administrative expenses of the Board, set out on page 35, which will be included in the record.

(The page referred to follows:)

ADMINISTRATIVE EXPENSES

The administrative expenses of the Board are paid from assessments against the banks, the Division of Examination and Supervision, and the Federal Savings and Loan Insurance Corporation.

The continued rapid growth and increase in the level of activity of the savings and loan business is reflected in the following statistics: Total assets of the members of the bank system at June 30, 1962, reached $86.8 billion, an increase of $11.7 billion or 15.6 percent since June 30, 1961. Mortgage loans made by member savings and loan associations in fiscal year 1962 aggregated $18.9 billion. This figure broke the record set 1 year ago by $3.8 billion or 24.9 percent. The gross flow of savings into member associations in fiscal year 1962 was $29 billion, an increase of $3.3 billion or 12.8 percent over fiscal year 1961; withdrawals aggregated $20.3 billion, leaving a net inflow of $8.7 billion. This latter figure broke the record made 1 year ago by $0.5 billion or 6.1 percent. All these activities contribute to the general increase in the workload of the Board and its staff units.

Administrative expenses for fiscal year 1964 are estimated at $2,470,000, an increase of $395,000 or 19 percent over the estimated expenses for the current fiscal year.

The increase is made up of $346,500 in personal services and benefits, and $48,500 in all other expenses. The estimate provides for an increase of 30 positions or 24.5 man-years over the current fiscal year. Departmental justification of all increases in personal services and benefits, and analyses and justification of increases in all other expenses by object classification will be found beginning on page 41.

DIVISION OF EXAMINATION AND SUPERVISION

Mr. EVINS. We next come to page 79 where you have the Divison of Examination and Supervision, with program highlights covered. On page 83 you cover the number of insuring institutions in tables there. Mr. Reporter, we will insert those pages in the record.

(The pages referred to follow:)

DIVISION OF EXAMINATION AND SUPERVISION

Program highlights

[Dollars in millions]

Description	1962 actual	1963 estimate	1964 estimate
Examinations completed or to be completed	4,155	4,457	4,531
Average assets of insured institutions (start of year)	$17.4	$19.6	$21.7
Average volume new loans made by insured institutions during year	$4.4	$4.5	$4.6

Introduction

The budget estimate of the Division for fiscal year 1964 totals $12,934,000. The estimate reflects an increase in personnel of 8 positions or 42.5 man-years and an increase in funds of $1,184,000 when compared with the estimated expenses for the current fiscal year. In percentage terms there is an increase of 4.5 percent in man-years and 10.1 percent in funds.

Of the increase in funds $957,500 is in personnel compensation, $70,500 is in personnel benefits, $168,000 is in contractual services and supplies, and a reduction of $12,000 is 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 year 1964; 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, 1962 involved 4,267 insured institutions with aggregate assets of $83.4 billion and with reserves and undivided profits of $5.7 billion. The potential liability of the Insurance Corporation at June 30, 1962, was $71.8 billion; it guaranteed financial protection of their savings to more than 31 million savers who carried their savings in insured institutions of the savings and loan type.

Assets	Number of associations		
	1961	1960	1959
At December 31:			
Over $300,000,000	15	10	10
$200,000,000 to $300,000,000	14	14	10
$150,000,000 to $200,000,000	25	15	14
$100,000,000 to $150,000,000	56	50	38
$75,000,000 to $100,000,000	69	49	41
Total	179	138	113

The volume of new loans made by insured institutions during fiscal 1962 was far greater than in any previous year. The total volume of new loans was $18.6 billion in 1962 and $14.9 billion in 1961, an increase of approximately 24.8 percent. The total volume ($33.5 billion) of new loans in this 2-year period exceeded the entire amount of mortgage holdings of these institutions at the beginning of calendar year 1957. It is estimated that the new loan volume of insured institutions will increase to $19.8 billion in fiscal 1963 and $20.8 billion in fiscal 1964, with such institutions making approximately 45 percent of all new loans on one- to four-family homes.

The continuing growth and activity of insured institutions directly affect the workload of the Office. The following table evidences the extent to which the workload has been increasing. The table presents the number and assets of the institutions at the beginning of each fiscal year, the average size of the institutions, and the new loans made during each fiscal year:

Insured institutions	1961 actual	1962 actual	1963 estimate	1964 estimate
Number [1]	4,044	4,160	4,267	4,380
Assets [1]	$63.2 B	$72.5 B	$83.4 B	$95.0 B
Average size	15.6 M	17.4 M	19.6 M	21.7 M
New loans made	14.9 B	18.6 B	19.8 B	20.8 B
Average volume new loans by each institution	3.6 M	4.4 M	4.5 M	4.6 M

[1] Beginning of year.

Key: B—billion; M—million.

FREQUENCY OF EXAMINATIONS

Mr. EVINS. I think you have already said that you have closer supervision and more examinations made each year now than previously?

Mr. MCMURRAY. More examinations; yes, sir.

Mr. EVINS. What is the law and what is the practice for the Board at the present time with respect to examinations?

Mr. McMURRAY. The practice is that we make an examination on the average for each institution, one in one year; at least one every year. Mr. Creighton can cite the law to you.

Mr. CORCORAN. There is a law on making Federal but on States it is a Board regulation.

Mr. CREIGHTON. The statute, section 403(b) of title IV of the National Housing Act, provides that every association that applies for insurance shall agree to examinations by the Insurance Corporation and shall pay the costs of such examinations.

Mr. EVINS. They merely agree to an annual examination?

Mr. CREIGHTON. Such examinations as we may require.

Mr. THOMAS. The word "annual" is not in there, Mr. Evins.

Mr. CREIGHTON. I do not believe the word "annual" is in there.

Mr. THOMAS. Eight or ten years ago the period was 2 to 3 years.

Mr. CREIGHTON. In section 5–A of the HOLC Act it provides that the Board shall provide for the organization, regulation, and examination of Federal associations.

Mr. EVINS. In view of the increasingly large number of institutions and mortgage foreclosures, nevertheless the Chairman said it was not alarming. I believe that is the word he used but we have had reports of tremendous foreclosures in the Veterans' Administration program and FHA. Coupled with these it is my personal view that it is reaching semialarming proportions.

Mr. McMURRAY. Mr. Congressman, I do know the number of foreclosures has increased. I do not know whether the overall percentage of all mortgages outstanding has increased as substantially or not. I do not know if we have that statistic or not.

I understand the percentage has increased but not as much as the number.

Mr. OSTERTAG. I read that there was a total of 86,000 in 1962 related to residential and small business foreclosures.

Mr. EVINS. I believe it has been amply brought out there have been foreclosures, but I wanted to inquire whether or not you are giving more and stricter supervision and more detailed exhaustive examinations or more frequent examinations.

Mr. McMURRAY. We are giving these examinations as Mr. Walters pointed out. This has increased a little bit but I think we are concentrating on the problem that concerns you, the quality of loans which will be brought into force, where as before, relatively speaking, there was a little bit more attention given to such things as the cash situation and other details which the auditor will find. We are concentrating more with the policy kinds of questions which, if they are allowed to continue, will result in foreclosure.

Mr. EVINS. Institutions never know with what frequency your examiners may call?

Mr. McMURRAY. There is always a surprise element that is required in an examination.

Mr. EVINS. Each institute is examined at least once each year?

Mr. McMURRAY. Yes, sir.

Mr. EVINS. I have one or two questions I wanted to ask and I might ask them as we go along.

REORGANIZATION OF THE BOARD

What has been the nature and extent of your reorganization in the last 2 years?

Mr. McMURRAY. Of course, the reorganization plan No. 6 only provided for the transfer to the Chairman of the Board, the budget responsibility, personnel, and management. That transfer has taken place but we have not reorganized internally otherwise.

Mr. EVINS. Not within the Board but as far as the Board functions being added to or attached to, or consolidated with the Federal Housing Administration?

Mr. McMURRAY. No, sir.

Mr. THOMAS. Mr. Evins, may I interrupt just a minute?

I understand that the Bureau of the Budget has asked for a complete study of the organization of the activities of the Board in all of its components. I am not sure whether the study has been completed or whether or not the Board has taken any action.

Perhaps now is not the proper time but I think the record should note that that has been going on at a cost of $50,000; is that correct?

Mr. CORCORAN. $52,000, sir.

RELATION OF ASSETS TO EMPLOYMENT

Mr. EVINS. Mr. Chairman, perhaps you or one of your members could explain to the committee the charts on page 89. Perhaps your budget officer could do that for us.

Mr. CORCORAN. Yes, sir. The intention of this chart, Mr. Congressman, is to show a relationship between examinations and the assets of institutions examined.

Mr. EVINS. Have the assets increased tremendously?

Mr. CORCORAN. Assets go up each year, as you will notice, and the trend of employment seems to go down.

Mr. EVINS. It does not show the number of examinations.

Mr. CORCORAN. No, sir.

Mr. EVINS. It shows your assets are up and your employment down?

M. CORCORAN. That is right. You would expect when you have more assets you would need more employees, but instead of that, the trend is downward.

Mr. EVINS. We know the assets are up.

Mr. McMURRAY. A large association requires a lot more manpower in making an examination than the smaller one. I say this in my statement but I would again like especially to compliment Larry Walters, our Director of Examinations, for doing what I think is a very wonderful job in streamlining the operation and carrying out the Board's desires in concentrating on the important aspects of the examination. I think the industry also is very pleased because, as you know, it is very disrupting when examiners come into an institution. It is our desire to get in and out and get on to more important matters. The institutions have appreciated that; this is what we are trying to do and we have been successful and we have had many compliments.

Mr. EVINS. This is a good chart on page 91 showing the number of insured institutions, mortgages held. Mr. Reporter, insert this page in the record.

(The page referred to follows:)

Selected items related to supervision of insured institutions

[Dollar amounts in billions]

Item	Year ended—		Year ending— [1]	
	June 30, 1961	June 30, 1962	June 30, 1963	June 30, 1964
Number of insured institutions	4,160	4,267	4,380	4,499.
Total assets	$72.5	$83.4	$95.0	$107.1.
First mortgages held	$60.8	$70.3	$80.2	$90.6.
Savings capital	$63.1	$68.4	$77.1	$86.3.
Mortgage loans made in year ended	$14.9	$18.6	$19.8	$20.8 (a).
Loans to finance construction (included in above)	$4.6	$5.4	$6.1	$6.9 (a).
Average assets of insured institutions (in millions)	$17.4	$19.6	$21.7	$23.8.
Number of insured institutions with assets of more than $25,000,000	706	826	951	1,080.
Number of examinations made	4,051	4,078	4,377	4,451.

[1] Estimate based on increase in year ended June 30, 1962, except items (a) which are based on annual average increases over the 6 years ended June 30, 1962.

The average size of institutions and the number of larger institutions continue to increase, as does the great volume of lending. Also evident in recent months are the effects of the labor surplus in numerous areas. These factors make for a greater number of complex cases and an increase in the time required per case, as well as in the time required in assisting and guiding supervisory agents in the field.

The estimate of 59 positions reflects an increase of 2 positions over the current fiscal year. The two positions—one GS–13 financial analyst and one GS–6, clerk-stenographer—are considered, on the basis of the above facts and factors, necessary to the adequate performance of the work of the Office.

On a man-year basis there are 56.7 man-years in fiscal 1964 and 52.2 in 1963, an increase in 1964 of 4.5 man-years. Of the increase, 3.5 man-years represent delay in filling 16 positions in the current fiscal year; the remaining 1 man-year represents the 2 new positions requested.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Mr. EVINS. We will now turn to page 108 showing a statement of income and expense and insert that page in the record, as well as pages 107, 109, 110, and 111.

(The pages referred to follow:)

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

A. Statement of sources and application of funds

	1962 actual	1963 estimate	1964 estimate
FUNDS APPLIED			
To operations:			
Acquisition of—			
Assets purchased to prevent default of insured institutions	$489,669	$437,000	$432,000
Furniture, fixtures, and equipment	25,195	28,000	31,000
Expenses	2,689,952	9,404,000	15,681,000
Total applied to operations	3,204,816	9,869,000	16,144,000
To financing:			
Increase in investments in U.S. securities held (par)	229,000,000	284,000,000	293,000,000
Increase in cash with Treasury	7,282,970		
Total applied to financing	236,282,970	284,000,000	293,000,00
Total funds applied	239,487,786	293,869,000	309,144,000
FUNDS PROVIDED			
By operations:			
Realization of—			
Proceeds from sale of assets purchased to prevent default	4,140,933	9,864,000	6,666,000
Sale of furniture, fixtures, and equipment	976	1,000	1,000
Additional premiums credited to secondary reserve	168,040,655	183,760,000	188,000,000
Return on additional premiums—prepayments	391,986	6,795,000	12,915,000
Income	66,815,494	83,191,000	100,393,000
Decrease in selected working capital	97,742	3,990,000	601,000
Total provided by operations	239,487,786	287,601,000	308,576,000
By financing: Decrease in cash with Treasury		6,268,000	568,000
Total funds provided	239,487,786	293,869,000	309,144,000
BUDGET EXPENDITURES			
Funds applied to operations	3,204,816	9,869,000	16,144,000
Funds provided by operations	239,487,786	287,601,000	308,576,000
Net budget expenditures	−236,282,970	−277,732,000	−292,432,000

NOTE.—The above are credited to net receipts of the fund.

B. Statement of income and expense

	1962 actual	1963 estimate	1964 estimate
Income:			
Insurance premiums and admission fees earned	$53,548,134	$61,713,000	$69,582,000
Interest earned on U.S. securities	12,367,591	21,478,000	30,811,000
Interest earned on loans to insured institutions	899,769		
Gain on sale of assets acquired to prevent default		112,000	
Miscellaneous	976	1,000	1,000
Total income	66,816,470	83,304,000	100,394,000
Expenses:			
Administrative expenses	945,063	1,162,000	1,335,000
Payments to Federal Home Loan Bank Board:			
Services and facilities	921,040	1,193,000	1,396,000
Conservatorship, S.R.I.C., and other	146,238	2,000	
Liquidation and other expenses	84,497	52,000	35,000
Contributions to insured institutions	191,128	200,000	
Accrued return on additional premiums—prepayments	391,986	6,795,000	12,915,000
Provision for contributions to insured institutions	10,000		
Subtotal	2,689,952	9,404,000	15,681,000
Depreciation	25,195	28,000	31,000
Losses on loans to insured institutions	3,000,000		
Total expense	5,715,147	9,432,000	15,712,000
Net income for the year	61,101,323	73,872,000	84,682,000
ANALYSIS OF RETAINED EARNINGS [1]			
Retained earnings, beginning of year	409,960,188	471,061,511	544,933,511
Retained earnings, end of year	471,061,511	544,933,511	629,615,511

C. Statement of financial condition

	1961 actual	1962 actual	1963 estimate	1964 estimate
ASSETS				
Cash with U.S. Treasury	$4,467,108	$11,750,079	$5,482,079	$4,914,079
Investments in U.S. securities (par)	363,500,000	592,500,000	876,500,000	1,169,500,000
Accounts receivable	14,642,990	18,326,571	18,533,571	22,608,571
Loans to insured institutions	45,000,000			
Deferred charges	1,824	7,431	431	431
Assets purchased to prevent default of insured institutions	6,313,650	44,662,386	35,347,386	29,113,386
Furniture, fixtures, and equipment	127,082	142,308	159,308	178,308
Less portion charged off as depreciation	127,082	142,308	159,308	178,308
Net furniture, fixtures, and equipment				
Total assets	433,925,572	667,246,467	935,863,467	1,226,136,467
LIABILITIES				
Current liabilities	157,842	324,693	365,693	420,693
Deferred credits: Unearned insurance premiums	23,807,543	27,427,622	31,576,622	36,197,622
Total liabilities	23,965,385	27,752,315	31,942,315	36,618,315
INSURANCE RESERVES				
Primary reserve	409,960,187	471,061,511	544,933,511	629,615,511
Secondary reserve (additional premiums)		167,409,192	355,324,641	552,923,641
Reserve for accrued return on additional premiums		391,986	3,663,000	6,979,000
Reserve for unpaid additional premiums—prepayments		631,463		
Total insurance reserves	409,960,187	639,494,152	903,921,152	1,189,518,152
Total liabilities and insurance reserves	433,925,572	667,246,467	935,863,467	1,226,136,467

[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.

Program highlights

[Dollars in millions]

Description	1962 actual	1963 estimate	1964 estimate
Insured institutions (June 30):			
Number	4,267	4,380	4,499
Assets	$83,400	$95,000	$107,100
Potential liability	$71,800	$81,200	$91,000
Reserves and undivided profits	$5,700	$6,400	$7,200
Insurance Corporation: Reserve for insurance losses	$639	$904	$1,190

Introduction

The Federal Savings and Loan Insurance Corporation insures savings accounts up to $10,000 for each saver in Federal savings and loan associations and in approved State-chartered savings and loan or building and loan associations, known in some sections of the country as cooperative banks and homestead associations.

The budget of the Insurance Corporation is based on the need for maintaining its operations in a current status and on the assumption that there will be no basic change in economic conditions during the budget year.

The budget program is designed to permit the Corporation to handle adequately and with dispatch its various insurance activities and to protect the savings of people invested in insured associations of the savings and loan type.

Summary

A comparison of the estimate for 1964 with the estimated expenses for the current fiscal year and with actual expenses for fiscal 1962 is afforded in the following table:

Description	1962 actual	1963 estimate	1964 estimate
Positions	109	116	127
Man-years	89.6	108.8	122.5
Personnel compensation	$693,490	$823,356	$977,416
Personnel benefits	48,731	59,994	70,084
Total, personal services and benefits	742,221	883,350	1,047,500
Contractual services and supplies	202,842	278,650	287,500
Total, administrative expenses	945,063	1,162,000	1,335,000
Proposed supplemental due to Public Law 87-793 approved Oct. 11, 1962		−22,000	
Actual, authorization, and estimate	945,063	1,140,000	1,335,000

As shown, the Corporation requests authority to expend up to $1,335,000 of its corporate funds for administrative expenses in fiscal 1964. The estimate reflects an increase in personnel of 11 positions or 13.7 man-years, and an increase in funds of $173,000 over the estimated expenses for the current fiscal year; in percentage terms increases of 9.5 percent in positions and 14.9 percent in funds are reflected.

Of the increase in funds, $154,060 is in personnel compensation, $10,090 in personnel benefits, and $8,850 in contractual services and supplies.

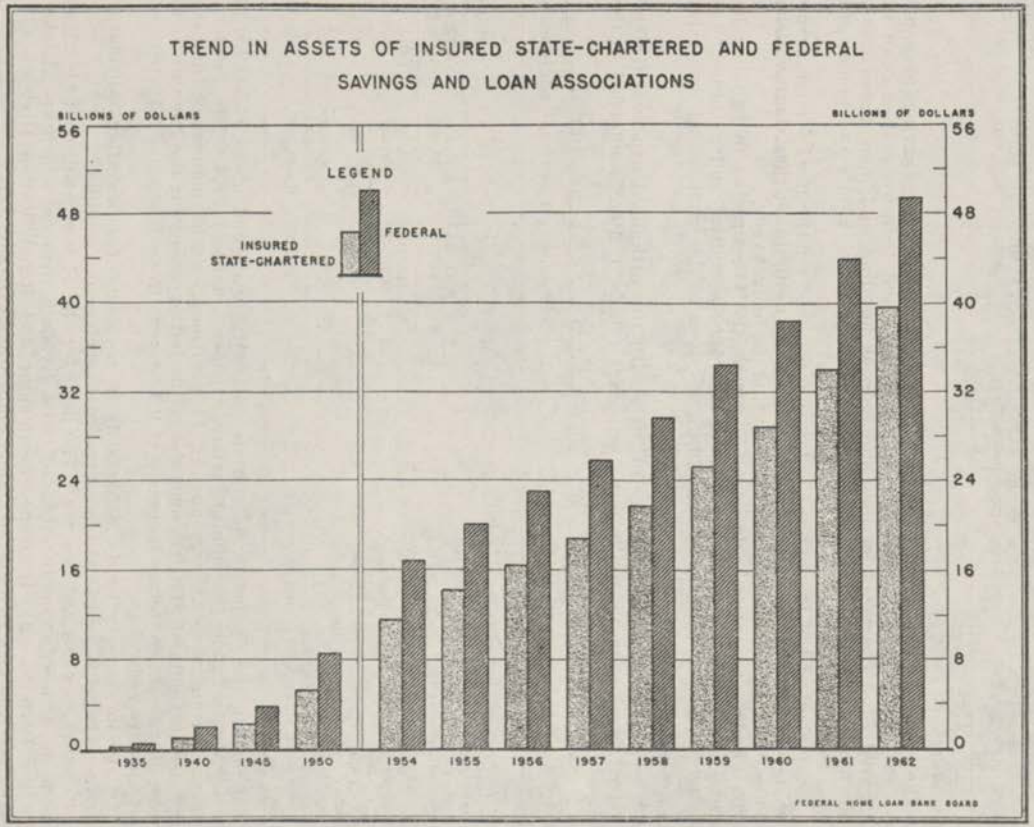
Personal services and benefits. The need for the 11 new positions is justified in the departmental justifications of the 4 divisions involved which are: Underwriting Division (2), Insurance Settlement and Rehabilitation Division (1), Operating Analysis Division (6), and Comptroller's Divsion (2).

Contractual services and supplies.—The major portion of the increase is in the items of travel and transportation of persons, $2,300; rent, communications, and utilities, $23,100; printing and reproduction, $2,500; there is a decrease in other services of $19,650.

TREND IN ASSETS OF INSURED CORPORATIONS

Mr. EVINS. The chart on page 113 gives the trend in assets, State-chartered and Federal savings and loan associations.

(The chart referred to follows:)


TREND IN ASSETS OF INSURED STATE-CHARTERED AND FEDERAL SAVINGS AND LOAN ASSOCIATIONS
BILLIONS OF DOLLARS
BILLIONS OF DOLLARS
56
48
40
32
24
16
8
0
LEGEND
FEDERAL
INSURED STATE-CHARTERED
1935
1940
1945
1950
1954
1955
1956
1957
1958
1959
1960
1961
1962
FEDERAL HOME LOAN BANK BOARD

ASSETS OF INSURED AND UNINSURED INSTITUTIONS

Mr. EVINS. Give us a little explanation of the chart on page 115, Mr. Budget Officer—assets of insured and uninsured savings and loan associations. There is a great discrepancy there.

(The chart referred to appears on p. 284.)

Mr. CORCORAN. The assets of uninsured savings and loan associations aggregate about $4.2 billion; percentagewise, insured associations held 95.5 percent of the assets while uninsured associations held 4.5 percent.

Mr. EVINS. You have nothing to do with the uninsured?

Mr. CORCORAN. No, sir.

Mr. MCMURRAY. There are some uninsured that are members of the bank system but those are mainly the ones in Massachusetts insured by another State agency.

Mr. EVINS. The potential liability of the Federal Savings and Loan Insurance Corporation was $5.7 billion in fiscal 1946; in 1963, it is $81.2 billion; and estimated for 1964, $91 billion.

Mr. OSTERTAG. That is an interesting table on page 116.

GROWTH IN SAVINGS AND NUMBER OF INVESTORS

Mr. THOMAS. Mr. Reporter, put page 116 in the record.

(The page referred to follows:)

Investors.—The following table shows the number of insured investors, total savings, and the size of the average insured account each year for the years indicated.

At June 30	Number insured investors	Savings in billions	Size average insured account	At June 30	Number insured investors	Savings in billions	Size average insured account
1946	4,644,000	$5.7	$1,132	1959	23,040,000	$48.1	$2,088
1950	7,663,000	10.6	1,389	1960	25,869,000	54.9	2,122
1955	14,700,000	27.0	1,837	1961	28,502,000	63.1	2,214
1956	16,719,000	31.9	1,908	1962	31,013,000	71.9	2,318
1957	18,806,000	36.7	1,952	1963 [1]	33,650,000	81.1	2,410
1958	20,832,000	41.8	2,007	1964 [1]	36,400,000	90.7	2,492

[1] Estimate.

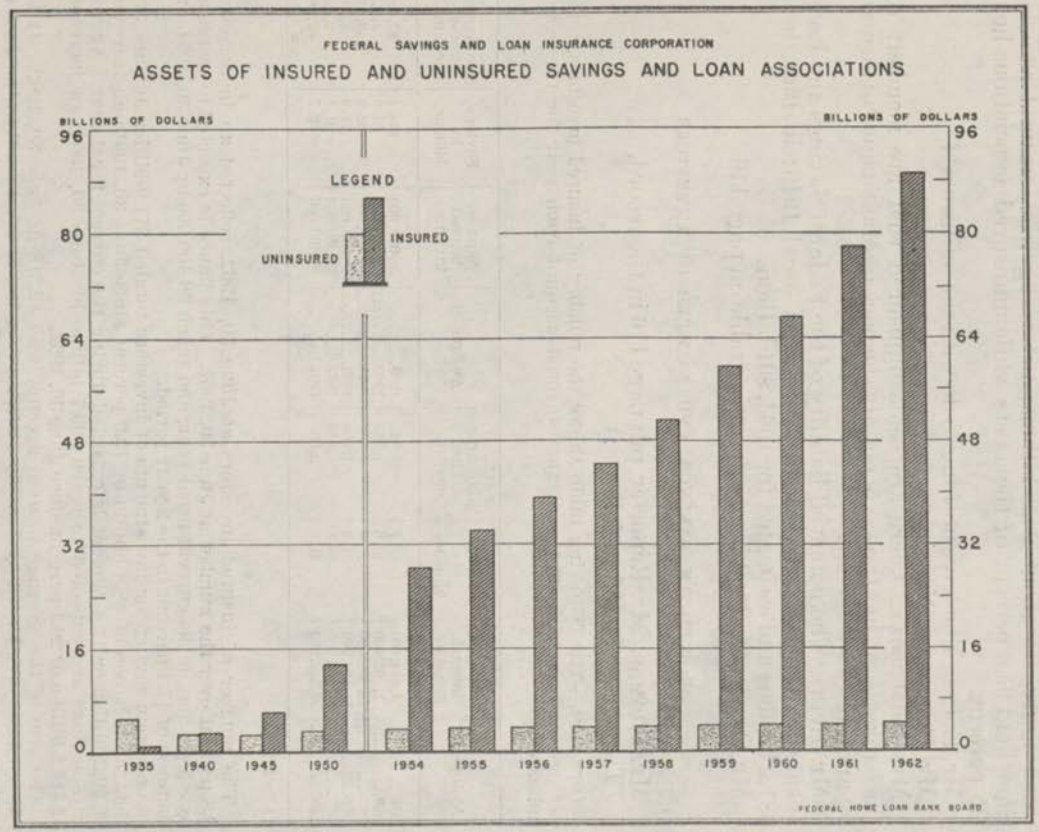
The number of insured investors at June 30, 1962, reflected an increase of 8.8 percent over the number at June 30, 1961. This figure is expected to increase by 8.5 percent in the current fiscal year, and reach 36,400,000 by June 30, 1964, an increase of 17.4 percent in the 2-year period.

Aggregate savings or investments of investors totaled $71.9 billion at June 30, 1962, an increase of $8.8 billion or 13.9 percent since June 30, 1961; an increase of $9.2 billion or 12.8 percent is expected during the current fiscal year. Aggregate savings are expected to reach $90.7 billion by June 30, 1964, an increase of $18.8 billion or 26.1 percent since June 30, 1962.

The size of the average insured account was $2,318 at June 30, 1962. It is expected to reach $2,492 by June 30, 1964, an increase of 7.5 percent in the 2-year period.

Mr. OSTERTAG. May I ask you, Mr. Chairman, if the comparative table on page 116 indicates the change that has taken place between 1946 and 1964? Does that mean the size of the average insured account ranges from $1,132 to $2,492 during that period?

Mr. CORCORAN. That is right, sir.


FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
ASSETS OF INSURED AND UNINSURED SAVINGS AND LOAN ASSOCIATIONS
BILLIONS OF DOLLARS
BILLIONS OF DOLLARS
96
80
64
48
32
16
0
LEGEND
INSURED
UNINSURED
1935
1940
1945
1950
1954
1955
1956
1957
1958
1959
1960
1961
1962
FEDERAL HOME LOAN BANK BOARD

Mr. OSTERTAG. In other words, the individual accounts are increasing along with everything else?

Mr. CORCORAN. That is right, sir.

Mr. OSTERTAG. The total number as well?

Mr. MCMURRAY. We expect to have 36,400,000 customers by June 30, 1964.

Mr. CORCORAN. The average size was $1,132 in 1946, and in 1962, $2,318.

Mr. OSTERTAG. Does the value of the dollar have a bearing on this change?

Mr. MCMURRAY. I think so, sir.

Mr. EVINS. Are there any other large potential liabilities?

Mr. MCMURRAY. If I may say so, you mentioned liability——

Mr. EVINS. Potential.

Mr. MCMURRAY. The strength of the institution is also its assets, so liability——

Mr. EVINS. There is a limitation they are requesting in the appropriation. I think the Board has an increasingly responsible role and they are an important agency.

We have no further questions, Mr. Chairman.

Mr. THOMAS. We thank you, gentlemen. You were nice to come over and we wish all of you good health.

Mr. Chairman, we hope your arm heals quickly. You are all doing a fine job and we thank you very much.

Mr. MCMURRAY. Thank you very much.

MONDAY, JANUARY 28, 1963.

FEDERAL POWER COMMISSION

WITNESSES

JOSEPH C. SWIDLER, CHAIRMAN
CHARLES R. ROSS, VICE CHAIRMAN
HOWARD V. MORGAN, COMMISSIONER
LAWRENCE J. O'CONNOR, JR., COMMISSIONER
HARRY J. TRAINOR, EXECUTIVE DIRECTOR
S. DAVID FREEMAN, ASSISTANT TO THE CHAIRMAN
RICHARD A. SOLOMON, GENERAL COUNSEL
ROBERT L. RUSSELL, ASSISTANT GENERAL COUNSEL
CLARENCE UNNEVEHR, CHIEF, BUREAU OF NATURAL GAS
F. STEWART BROWN, CHIEF, BUREAU OF POWER
RUSSELL C. RAINWATER, CHIEF ACCOUNTANT
MILTON A. PILCHER, DIRECTOR OF ADMINISTRATION
THOMAS F. CASHELL, CHIEF, DIVISION OF BUDGET AND FINANCE

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	7,210	8,988	10,273
	Positions other than permanent	51	82	50
	Other personnel compensation	72		72
	Total personnel compensation	7,333	9,070	10,395
12	Personnel benefits	548	688	787
21	Travel and transportation of persons	393	520	520
22	Transportation of things	18	29	15
23	Rent, communications, and utilities	120	217	359
24	Printing and reproduction	117	118	129
25	Other services	81	163	285
	Services of other agencies		2	
26	Supplies and materials	93	97	116
31	Equipment	95	122	119
	Total costs	8,798	11,026	12,725
	Change in selected resources	−12		
	Total obligations	8,786	11,026	12,725

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	963	1,178	1,299
Full-time equivalent of other positions	19	10	2
Average number of all employees	904	1,086	1,215
Number of employees at end of year	988	1,140	1,260
Average GS grade	9.0	9.1	9.0
Average GS salary	$7,901	$8,378	$8,338
Average salary of ungraded positions	$5,237	$5,250	$5,250

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Natural gas industry	4,660	6,083	7,106
2. Electric power industry	1,313	1,725	2,191
3. Non-Federal hydroelectric projects	1,706	1,895	2,061
4. Federal river development projects	431	488	504
5. Administration	688	835	863
Total program costs, funded	8,798	11,026	12,725
Change in selected resources [1]	−12		
Total obligations	8,786	11,026	12,725
Financing:			
Reimbursements for emergency preparedness functions (−)			−50
Unobligated balance lapsing	7		
New obligational authority	8,793	11,026	12,675
New obligational authority:			
Appropriation	8,793	10,700	12,675
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (76 Stat. 728) (−)		−74	
Appropriation (adjusted)	8,793	10,626	12,675
Proposed supplemental due to pay increases		400	

[1] Selected resources as of June 30 are as follows:

	1961	1962	1963	1964
Stores	23	27	27	27
Unpaid undelivered orders	88	72	72	72
Total selected resources	111	99	99	99

NEW COMMITTEE MEMBERS

Mr. THOMAS. Will the committee please come to order. We have with us this morning for the first time two of our very able and distinguished colleagues. We have an oldtimer with us from Illinois over on the majority side, Mr. Shipley. Mr. Shipley, we warmly welcome you. You are an oldtimer on the committee, you just merely transferred your love and affections to this subcommittee. We want to tell you how glad we are to have you and we think you showed good judgment.

We have Mr. Wyman from New Hampshire. He brings to the committee a wealth of experience. He has been over on the Senate side, with one of our lately departed Senators, a very close friend of mine, Styles Bridges. Mr. Wyman has a good, level head. We are pleased beyond words to have you with us. Make yourself at home.

It is a privilege and a pleasure again to have with us our friends from the Federal Power Commission. We have Mr. Swidler, the Chairman. Here is Mr. Ross. It is good to see you. Here is Mr. Morgan. Mr. Morgan looks to be about my age, about 29, young and handsome. Brother O'Connor is certainly an oldtimer. Do we have a vacancy here?

Mr. SWIDLER. Mr. Woodward is out of town and was unable to be here, Chairman Thomas.

Mr. THOMAS. Tell him we miss him. Where is Brother Trainor?

Mr. TRAINOR. Here, sir.

Mr. THOMAS. He is executive director. You are the man who runs the place, are you not?

Mr. TRAINOR. Not quite. I help.

Mr. THOMAS. Mr. Freeman, assistant to the Chairman. Where is Brother Freeman?

Mr. FREEMAN. Right here, sir.

Mr. THOMAS. Nice to have you aboard. Mr. Solomon, General Counsel. Judge, you have your hands full. I notice you do not have but 143 people in your organization. You are doing pretty good. I want to get your formula.

Mr. SOLOMON. We do not have 143 now.

Mr. THOMAS. It will not be long, will it? Where is Mr. Russell, Assistant General Counsel?

Mr. RUSSELL. Here, sir.

Mr. THOMAS. Where are you from, Judge?

Mr. RUSSELL. Kentucky.

Mr. THOMAS. That Kentucky law is always good. We have Mr. Unnevehr, Chief of the Bureau of Natural Gas. It is nice to have you with us. We have Brother Brown, Chief of the Bureau of Power. What is your background?

Mr. BROWN. I have had 31 year's experience with the Corps of Engineers in five or six different locations in the United States and one place outside of the country.

Mr. THOMAS. You are an engineer?

Mr. BROWN. Yes, sir.

Mr. THOMAS. Will you carry on for a few moments, Mr. Ostertag?

Mr. OSTERTAG. I believe the chairman has introduced everyone up to, Mr. Rainwater, the Chief Accountant.

Mr. RAINWATER. Right here, sir.

Mr. OSTERTAG. Mr. Pilcher, Director of Administration; Mr. Cashell, Chief of the Division of Budget and Finance. Are there any other officials of the Power Commission here that we have not presented or placed their names in the record?

Mr. SWIDLER. I think that is all, Mr. Ostertag.

Mr. OSTERTAG. Mr. Chairman, the committee welcomes you and the members of your Commission and your staff today for the purpose of discussing and considering your justifications for your 1964 budget request.

GENERAL STATEMENT

I think you have a prepared statement; do you not?

Mr. SWIDLER. Yes, Mr. Ostertag, I have a prepared statement. I had not thought to read it because it is a fairly long statement. I do not want to take this much of the committee's time. I would like to have it made part of the record, if you please.

Mr. OSTERTAG. Without objection, we will place the Chairman's statement in the record at this point.

(Mr. Swidler's statement follows:)

Mr. Chairman and members of the committee, I am delighted to appear before you today to report on the Federal Power Commission's progress in the past year. We think our progress in reducing our backlog of natural gas cases and in making a positive contribution to the main problems facing the electric power industry demonstrate that the Commission can make prudent and effective

use of the funds we are requesting for 1964 in carrying out our programs under the Natural Gas Act and Federal Power Act.

Let me start with the key figures in our appropriation request in order to have them before us. The Commission is requesting $12,725,000 to carry on all of its programs during fiscal 1964. The amount requested is an increase of $1,699,000 over the total obligations for fiscal 1963 of $11,026,000 (adjusted to include a $400,000 proposed supplemental to provide in part for the congressionally approved salary increases). This is an increase of about 15 percent. Breaking the total down among the component programs, for our natural gas work we are asking $7,106,000, an increase of $1,023,000 over 1963. For electric power we are asking $4,756,000, an increase of $648,000 over 1963. For our administrative work the amount requested is $863,000, an increase of only $28,000 over 1963. The funds for fiscal 1964 will provide an additional 121 positions over fiscal 1963, 75 for natural gas, 46 for power and no increase for administration, an increase from 1,178 to 1,299 positions.

First of all I want to discuss our needs for the coming year in the natural gas field and report on some of our accomplishments in the past year.

At the hearings last year I mentioned that the Commission had a backlog of natural gas pipeline rate cases which amounted to over a billion dollars in rate increases collected by the pipelines but subject to possible refund when the Commission finally decided the case. In the past year the Commission has been working hard to eliminate that backlog, and with a considerable degree of progress.

We have disposed of 85 pipeline rate cases since July 1961, and ordered refunds in these cases of $350 million to customers of the pipelines throughout the country. In these same proceedings we ordered reductions in rates for the future aggregating over $62 million a year. In addition many settlement orders include moratoriums on future rate increases for stipulated periods in the future. The billion-dollar backlog of a year ago has been reduced to $471 million even including the accumulation of additional amounts collected subject to refund in the remaining 41 cases. Most of this remainder is accounted for by a single case.

The benefits to consumers from refunds and rate reductions are obvious. However, the Commission's action in clearing up its backlog of pipeline rate cases has also been of significant benefit to the industry. For the first time in years most pipeline companies have firm rates and a financial status that is not clouded by staggering contingent refund obligations. Pipeline securities can now be valued on a firm financial basis and in light of the rapid growth of the industry as it continues to supply the ever-increasing demand for natural gas by both industrial and domestic consumers.

The Commission's success in clearing up its backlog of pipeline rate cases has reversed the upward trend of natural gas prices which has plagued the industry and its consumers in recent years. Not only were pipeline rates reduced but natural gas prices at the well remained virtually stationary throughout the past year at approximately 16½ cents per thousand cubic feet. The Commission feels that its policies are entitled to much of the credit for this unprecedented price stability in the natural gas industry. The Commission has adhered to its interim price ceilings for producers in the various producing areas of the country with relatively minor downward adjustments in the interim ceilings for initial sales. The stabilizing of prices in the field coupled with pipeline refunds and rate reductions has restored public confidence in the Commission and renewed public reliance on natural gas as a low cost fuel. Natural gas is facing increased competition from other energy sources. Price stabilization is important to the progress and prosperity of this great industry.

Let me now describe in more detail the progress we have made toward mastering our backlog of natural gas work and why we need more people.

In speaking of our natural gas work I am talking about one of the largest and fastest growing industries in this country. I am sure that the average American would be surprised if he knew that natural gas supplies one-third of all of the energy used in this country, including the energy used in automobiles and other forms of transportation and in the home and in industry. It has increased its penetration of the Nation's total energy market from approximately 14 percent in 1945 to 33 percent in 1961. The industry served less than 9 million consumers in 1945 while today it serves almost 35 million consumers. It is now the sixth largest industry in the country and in 1961 spent over $1.6 billion in the construction of new facilities alone. The investment in gas utility plant has grown from less than $5 billion in 1945 to over $22 billion in 1961.

The natural gas industry is necessarily more closely regulated at the Federal level than any other utility because it depends on large capacity, long distance interstate transmission from the natural gas fields to the population and industrial centers throughout the country. A certificate must be obtained from the Federal Power Commission before an interstate pipeline can be built and before a producer can begin delivery of gas from his well to an interstate pipeline. Wholesale prices of natural gas for resale in interstate commerce, both at the wellhead and at the city gate, are subject to FPC regulation. It is a matter of compelling public interest for the FPC to have sufficient staff to process certificate and rate cases promptly if the industry is to grow and supply its share of the Nation's energy needs.

Now to turn to the specifics. Despite our progress thus far the Commission's backlog of pipeline rate cases is still sizable. We must presume that the cases that remain will not be settled and must go through the full hearing route. The Commission needs sufficient staff to continue its aggressive program of catching up and remaining current in its pipeline rate work. New cases continue to be filed. In addition there are many pipelines which do not have rate increases pending but whose rates should be investigated—and would be investigated were staff available.

We are not requesting any increase in the numbers to be assigned to pipeline work, because we are determined to bring our backlog down to a manageable level by the end of fiscal year 1963. However, we must have adequate staff to remain current and avoid the accumulation of another billion dollar pipeline rate suspension backlog, such as the present members of this Commission inherited.

The Commission has taken a close look at its procedures and found much room for improvement. In the past year we have adopted regulations that will be a big help in enabling us to handle our pipeline rate work without any increase in staff. The regulations require pipeline companies to submit their entire case and all supporting data verified by an independent certified public accountant at the time a rate increase is filed. The data supplied by the companies under our new regulations will eliminate the need for extended field investigations as a part of rate cases. It was the field investigations which caused much of the delays in processing rate cases, and piled up the backlog. We shall, of course, need adequate staff to check the books of pipeline companies periodically to assure compliance with the uniform system of accounts. Without such compliance the new system will fail of its purpose. With adequate staff our new procedure will enable us to complete pipeline rate cases in a fraction of the time it has taken in the past.

We have also made more extensive use of prehearing conferences to clarify the issues and, where possible, to eliminate immaterial or peripheral issues, thus simplifying and materially expediting formal hearings.

A significant step in increasing the efficiency of our field operations has been the creation of a field office in Houston, Tex., which we established to strengthen supervision over our personnel in the area and to serve as a clearinghouse for problems of the small independent producers in the southwestern United States.

Another activity in which progress has been made is our pipeline certificate work. The growth of the pipeline industry is, of course, entirely dependent upon prompt handling of certificate applications. In the last 3 months of 1962, the Commission issued certificates for over $230 million of new construction as compared with approximately $71 million for the comparable period in 1961. These projects added a stimulus to the economy, and particularly to the steel industry. Still there are certificate applications for approximately $914 million for pipeline construction pending before the Commission. Not all of these projects will be approved—some conflict with each other—but it is very much in the public interest that they be decided promptly.

The costs of delay in processing certificate applications are great even if the certificates are denied. The least of the expense is the time, effort, and cost to the parties in long-drawn-out cases. An even greater economic waste from delays is the millions of dollars required to hold together the gas supply, equipment, construction and financial commitments, as well as other expenses, much of which are ultimately borne by the gas consumer.

We hope to achieve our goal of current handling of pipeline rate and certificate cases in fiscal 1964 without any increase in staff, by further streamlining our procedures and making more efficient use of our staff.

Let me now discuss the area of our greatest backlog—gas producer cases, both rate and certificate—the activities for which we are requesting 75 additional positions.

The Commission has made significant progress in our program of producer rate and certificate regulation. However, we have had to proceed in the last year largely on the basis of interim ceilings, voluntary setlements, and other devices for buying time while we build up our manpower and put the Commission's own activities on a stable foundation. The budget for natural gas activities which we propose is for the purpose of helping to provide long-term assurance of the Commission's ability to cope with its responsibilities in natural gas regulation.

The Commission's settlement program has helped us reduce our producer rate backlog in this interim period. We have ordered refunds of over $30 million and made some reductions in the annual amount of rate increases under suspension. In the last 6 months we disposed of 289 producer suspension proceedings. We cannot hope to eliminate our backlog of producer rate cases, or even to make a significant reduction, until we obtain more staff but we have reversed the trend and our backlog is now going down rather than up. This is not success but it is porgress.

The Commission has established guidelines which limit the type of evidence necessary to determine the initial price in a producer certificate case. We are now in a position to decide producer certificate cases expeditiously and we have set many hundreds of them for hearing. However our progress is limited by lack of manpower. The increased staff we are requesting for producer work will enable us to continue to make progress.

The major regulatory problem facing the Commission is producer rate regulation. Until late 1960, emphasis in this activity was placed on the individual company approach and very little, if any, progress was made toward discharging that responsibility. Thousands of rate increase cases accumulated. It became increasingly apparent that this procedure was, at best, a very difficult method of producer regulation and would require an army of staff if carried out on a meaningful scale.

As I mentioned last year, the Commission has adopted the area rate approach as the administrative device for solving the new and challenging problem of bringing gas producers within the framework of rate regulation. When the new Commission took office it inherited the area rate proceedings in the Permian Basin and southern Louisiana into which some 750 individual cases had been consolidated but on which practically no progress had been made. The hearings had not begun nor had any definite plans been made for conducting such hearings.

In the past year we decided to make the Permian Basin case the lead case. A key group of the most able and experienced members of the Commission's staff have spent almost their entire time, and a great deal of overtime in a concerted effort to transform the area rate proceedings from a theoretical concept to a legal proceeding based upon solid evidence on which the Commission could arrive at a fair decision. This proceeding will not only decide the rates in the Permian Basin, but will provide guidelines which should enable us to make disposition of the cases for other areas as well.

I am happy to report that these concentrated efforts in the Permian Basin case have moved producer regulation far down the road from abstraction to reality. The Commission sent out questionnaires to the producers in the area and their responses have provided the most comprehensive information on production costs and operating data that has ever been assembled. This data has been compiled—a huge task in itself—and the staff has now presented their evidence based on the results of an analysis of the data. The hundreds of producers in the area have already introduced their direct case. Considering the unprecedented nature of the case and its status a year ago, progress has been satisfactory and I am hopeful the hearing will be concluded this fiscal year.

Pushing the Permian case has almost completely drained staff resources available for producer matters generally. The southern Louisiana area proceeding, affecting the single most important gas producing area, has been delayed because of inadequate staff.

By the time additional funds requested are appropriated and made available the Commission in all likelihood will have decided the Permian Basin proceeding and will have set the guidelines for speedily concluding area rate proceedings for the remainder of the country. Although the people now trying the Permian

case will be available for other proceedings, there are 18 producing areas in the country and even with greatly increased efficiency it will require all of the people we are requesting to bring these proceedings to a speedy conclusion and process the additional filings which continue to be made.

The increased staff we are requesting, an increase of 75 to a total of 750, should be considered in the context of the huge workload which confronts the Commission in the natural gas field. In the last fiscal year, natural gas companies filed almost 2,000 certificate applications and made almost 8,000 rate filings, each one requiring extensive staff consideration. Many involved difficult and extended hearings lasting over a period of weeks or months, or in the past, even years. Producer rate cases have been piling up since 1954, and most of the cases filed since that time are still with us.

We now have a program to decide and dispose of these cases. We are asking for the staff to enable the Commission to discharge its responsibilities for deciding producer rate cases—a responsibility which to date the Federal Government has not carried out. Our requests for increased manpower should not, therefore, be considered in terms of additional people to expand a going activity, but rather manpower which we urgently need to do a vital job which has not been done at all in the past.

When viewed in light of the $350 million of refunds we have ordered for consumers in the past year, or the $62 million of annual reductions in rates for the future, or the size of our remaining backlog and the continued growth of the industry we are regulating, the Commission's total appropriation request of $7,106,000 for natural gas work seems modest indeed. I have no hesitancy in saying that the American taxpayer gets a high return from his investment in the activities of the Federal Power Commission.

In the past year we believe we have domonstrated that we can make effective use of the additional staff which we so clearly need to become current and remain current in our natural gas work.

Let me now turn to the Commission's electric power work. We are requesting $4,756,000, an increase of $648,000 over 1963 to provide for 46 additional positions, primarily for the regulation of wholesale electric rates in interstate commerce.

The Commission's appropriations request for its electric power work reflects the vigorous leadership it is exercising in the electric power field. For the first time in a decade the Commission is in the mainstream of the activity of the industry and in my judgment is making a major contribution toward progress in the industry. Our most important contribution to date has been to stimulate a greater awareness of the economies inherent in interconnections and coordinated operations, under modern technological conditions. In the words of section 202(a) of the Federal Power Act, we are attempting to help assure:

"* * * an abundant supply of electric energy throughout the United States with the greatest possible economy and with regard to the proper utilization and conservation of natural resources * * *"

I refer to the Commission's national power survey now underway, which I described to the committee at our appropriations hearing last year. The survey is the Commission's effort to carry out the responsibility assigned to it in section 202(a) on the basis of a national perspective, and by regional and interregional integration of power system facilities.

The electric power industry, the largest and one of the most rapidly growing of all industries, is at a point in its technical development where forward planning on a national scale can pay big dividends in lower costs and lower rates for the future. Generation by conventional thermal plants has achieved a major breakthrough in recent years with individual units as large as 1 million kilowatts now on order. Such units mean large savings in fixed costs and operating costs, as compared with the unit sizes of the past. Extra-high-voltage transmission lines which can transport bulk power economically for many hundreds of miles are now available, and several at 500,000 volts—higher than any previously built in this country except for experimental purposes—have been announced for early construction. Lines in the 700- to 765-kilovolt range are contemplated in the 1970's.

There are great developments in the offing with respect to the technology of power generation. Perhaps the most important is the indication of a possible breakthrough in economical generation in nuclear plants. The use of pumped storage hydro plants for peaking purposes is a new development made feasible by the reversible pump turbine, which can generate power on peak as water falls from one pond to another, and use offpeak thermal power to pump

the water back into the higher pond. Large capacity can thus be economically installed even where only small amounts of water are available, thus encouraging system interconnections to make use of the full peaking capacity. Prospects for transportation of coal in slurry form by pipelines appear promising. This development will affect the economic relationship between the alternatives of transporting energy as fuel or as electric energy. The Commission's national power survey is formulating suggestions for making maximum use of our new technology.

The survey is filling a vacuum by supplying the means by which the Nation's interest in the effective use of its electric power resources can be exercised in a positive manner. Many thinking people inside and outside the industry have recognized the existence of this vacuum, and I believe this explains the warmth with which the national power survey has been greeted by every segment of the industry—public, private, and cooperative—despite the fact that they are little accustomed to agreeing with each other on most policy matters. I doubt that the various elements of the industry have ever cooperated on such a broad scale in any other project.

As you know, the survey is not intended as a basis for dictating to the various companies in the industry what kind of generating units they should buy, where they should be located, or how they should be integrated for service to the region and Nation. Rather, the purpose is to suggest the general plant location areas and intertie and integration arrangements which the utilities can follow up on their own, with such variations as more particular investigations and changing circumstances may disclose to be necessary. The most important contribution of the survey is that it introduces into every industry decision on building additional generating and transmission facilities the question of the degree to whch the various alternatives will serve the Nation's interests.

I might say that we hear from all sides of new and closer working arrangements among the various enterprises within the industry and of new interconnection agreements, and many industry people have been kind enough to say that the national power survey has already stimulated the industry to think in terms of the broad national interest in planning for expansion. I believe the survey has already paid for itself many times over in this broadening of industry perspective, although these benefits are small compared to those which are yet to come.

The Commission is, of course, working closely with all segments of the industry in carrying on the survey. Over 100 of the leading experts in the electric power field are actively at work on the special technical committees, the regional committees, the General Technical Advisory Committee, and the Executive Advisory Committee. These committees are drawn from every part of the industry and every part of the country. They have prepared numerous reports that will be invaluable to the Commission in its survey report.

We expect to complete the basic work of the survey in this fiscal year and to compile the results and write and publish the report as soon as possible in fiscal 1964.

We are asking for funds to maintain and strengthen the staff of experts which the Commission is building up in the field of power system interconnection and coordination. This staff is required to complete the survey and make the more detailed studies necessary to implement the broad suggestions of the power survey report. They will be needed to continue to work with the industry in shaping a system of power supply for this country which will minimize power costs to the entire country, and insure an energy base for our economy which takes full advantage of our resources and technological opportunities.

The Commission's work in encouraging greater coordination and stronger ties between the Nation's power systems gives added urgency to the need for building up a staff to carry out the Commission's job of regulating the wholesale rates of the interstate electric power companies. We need these staff resources to insure that electric consumers will benefit from the savings that can be achieved through the large flows of electric energy in interstate commerce which the power survey is encouraging.

It is hard to credit the fact that electric rate regulation—the central consumer protection activity under the Federal Power Act—has in recent years for all practical purposes ceased to be an effective function of the Federal Power Commission. When the present members of the Commission took office in 1961 we found the electric rate staff—which consisted of a total of four people—sub-

merged in the natural gas organization. The group was transferred to the Bureau of Power and given the prominent place it deserves in our power work. The situation had so deteriorated that many of the interstate electric power companies subject to FPC jurisdiction did not even have their wholesale rates on file with us.

The deterioration which has taken place in the Commission's electric rate staff becomes clear when we compare our existing staff with the number of people we had in 1949. Fourteen years ago when the industry was about one-third the size to which it has now grown, a staff of about 38 was devoted to electric rate regulation—over 50 percent more than our present staff. The flow of electric power over State lines almost tripled in the last decade from 42 billion kilowatt-hours in 1950 to 113 billion kilowatt-hours in 1961, but while the problems grew and the need increased the FPC rate staff was dissolved.

When the present members of the Commission took office we promptly began to invigorate our electric rate work within the limits of existing manpower.

1. We have built up the staff at least to the point where we have a skeleton organization which can absorb and make effective use of the increased staff we are requesting.

2. We required electric utilities to file their wholesale rate schedules in interstate commerce with the FPC. These rate filings are now pouring in but our manpower is hardly adequate for routine processing much less to investigate the rate sufficiently to determine if they are just and reasonable.

3. We are revising our rules to require electric companies to support these rate filings with cost information to facilitate meaningful Commission review.

4. We are beginning a modest program of test checks of the books of the electric power companies to verify the information filed in support of rate changes.

With these and other actions, the groundwork will be complete for the assumption—or resumption—of our rate regulation responsibilities. The essential ingredient, of course, is the staff to do the work.

The absence of effective Federal rate regulation has had serious and harmful consequences, direct and indirect. Above all, is the fact that the purchasers of electricity in interstate commerce for resale have not received the protection which the Congress intended. The indirect consequences have been almost as serious. Unlike the situation in natural gas, the Commission has not set the basic rates or policies which would be helpful to State commissions in enabling them to perform their part of the regulatory work. This is especially difficult to justify because the Federal Power Act evidences an intention that the Commission's rate work should strengthen and support the exercise of the States responsibilities in the retail field.

The wholesale customers who have had no rate and service protection from the Commission have been in a dilemma. Many of the sellouts of small distributing systems to larger systems may well be attributable to the fact that they had no way of assuring themselves of wholesale service at fair prices. In view of the great economic advantage of large-scale production, construction of small local generating plants was frequently not a feasible solution. Other of the distributing enterprises—public and private—have nevertheless been driven to this solution of their supply problems, although construction of small and relatively inefficient units would be regrettable and unnecessary if the distributors could be assured of the advantages of large-scale generation by purchasing power at fair rates and on reasonable terms from their wholesalers.

The need for effective wholesale electric rate regulation is growing acute as more and more power systems interconnect with their neighbors and the wholesale interstate transactions become a larger and larger part of the total. The trend toward power pooling has devoloped into a headlong rush as the electric power systems in the country, stimulated by the Commission's national power survey, seize the opportunities to reduce the cost of generating electricity by taking advantage of the savings of utilizing larger generating units, reducing reserves, and taking advantage of system diversities, all inherent in interconnections and coordinated operations. The electric power industry is rapidly developing into a single interconnected grid, at least from the Rocky Mountains to the east coast and from Maine to Florida. It will not be many years before all the major power systems of the country will be joined in a single network. It would indeed be an anomaly if the Commission did not follow through with an effective job of wholesale rate regulation to make sure that power from these interstate systems is made available

to wholesale customers at reasonable rates and with assurance of continued supply. This Commission urgently needs additional staff to carry out this important consumer protection activity.

The Commission has also taken action to improve its performance with respect to its other activities in the electric power field.

The Commission is the custodian of the Nation's hydroelectric resources. We have breathed new life into our responsibility for licensing non-Federal hydroelectric projects which, as you know, is a self-supporting activity under the terms of the Federal Power Act.

As an example of the importance of this activity, applications for non-Federal hydroelectric projects pending as of December 31, 1962, involve construction costs approximating $1.8 billion.

We have reviewed the status of all our existing license cases in an effort to move them toward early conclusion and progress has been accelerated. To move a case along and dispose of it, however, requires more manpower than leaving it on the shelf, and as the cases are completed, the number of licensees grows and there is increasing need to supervise compliance with the license provisions.

We have announced a new policy limiting the term of licenses granted to hitherto unlicensed projects constructed before 1935 in order to prevent those who have ignored the licensing provisions of the Federal Power Act from obtaining an unmerited advantage. We are making a concerted effort to bring these projects under license and our efforts are meeting with some success.

We have begun a policy of inserting conditions in new licenses which require annual payments for the amounts due the Federal Government by the owners of non-Federal downstream projects for the benefits they receive from Federal headwater storage projects. We have also announced a rule which, if adopted, will also provide for annual payments to the Federal Treasury in the order of millions of dollars annually from the owners of existing projects which receive headwater benefits from Federal projects. We expect headwater benefit payments in the current year of $1,750,000, three times the aggregate collected in the previous history of the Federal Power Act.

We have proposed a rule requiring all licensees to submit a comprehensive plan for public recreation with their license applications to assure that the general public obtains the full benefits of the recreation potential of non-Federal hydroelectric projects.

In conclusion, I want to call attention to the national defense responsibilities of the Federal Power Commission. Under the Federal Power Act, the Natural Gas Act, various Executive orders and a memorandum of agreement with the Secretary of the Interior, the Commission has certain defense planning responsibilities for the vital electric power and natural gas industries. We are currently engaged in this work using regular staff to a limited degree to the extent they can be diverted from other pressing work. The Office of Emergency Planning is requesting $50,000 to reimburse us for the cost of a modest expansion in this work in 1964. This program, explained in detail in the OEP budget, is of course based upon a preparedness assumption that would not require substantial staff resources. In the event of a defense emergency a large part of our staff would be vitally needed and would be diverted to the mobilization of power and gas resources for national defense.

There are many other important items in both the power and natural gas activities which I have not undertaken to discuss in this statement. The need for these programs is documented in our detailed justifications.

Mr. OSTERTAG. If you will please, Mr. Chairman, give the committee the benefit of any thoughts, or highlights, or issues, or problems you care to present to us at this time.

Mr. SWIDLER. Thank you, Mr. Ostertag. When we were here a year ago, we were all rather new in our jobs. I had been Chairman only 6 months. I think we suffered a bit from lack of an opportunity to familiarize ourselves with the background of the natural gas industry to the extent we should have liked.

We have had another year now to get the feel of our work and to make a record to present to you. We are very glad of this opportunity to put before you the record of what we have done in the last year

and to discuss our problems as well as what we think are some achievements which are creditable.

Mr. OSTERTAG. Mr. Chairman, you mentioned that a year ago, when you came before this committee, you and the several members of your Commission were comparatively new in connection with your responsibilities in the Power Commission. Is it true that the entire Commission, all membership of the Commission, have been appointed since the new administration by President Kennedy?

Mr. SWIDLER. Yes, that is the fact. Mr. Morgan and I are the seniors on the Commission. We were both sworn in on June 28, 1961, so that we have about a year and a half of experience behind us.

Just to get the key figures out before us, we are asking for fiscal 1964 a total of $12,725,000, of which $50,000 would be reimbursed by OEP.

Mr. THOMAS. You have a transfer to General Services for space rental, too.

Mr. SWIDLER. Yes. This is an increase of $1,699,000 over the appropriation for fiscal 1963.

PAY INCREASES

Mr. THOMAS. You have a $400,000 deficiency request pending?

Mr. SWIDLER. Yes.

Mr. THOMAS. To take care of your pay increase?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. What did your pay increase cost you for last year and this year? How much will you absorb this year? Assuming $400,000 is your deficiency for this year, based upon the contemplated increase of about 7 percent this year. What did that cost you last year and how much did you absorb?

Mr. SWIDLER. I will ask Mr. Pilcher and Mr. Cashell to give that information.

Mr. CASHELL. We did not absorb any of the $400,000 for the 1963 cost.

Mr. OSTERTAG. For which you are making a supplemental request.

Mr. THOMAS. What is the 1964 cost?

Mr. CASHELL. $794,000 is our cost of pay increase in 1964.

Mr. THOMAS. You will not absorb any of it this year?

Mr. SWIDLER. No, sir.

Mr. OSTERTAG. Will the chairman yield there?

Mr. THOMAS. Yes.

Mr. OSTERTAG. Right on that point, you have a $1,699,000 increase over that of last year. In other words, part of the increase is due to the $794,000, which is the cost of increased salaries.

Mr. SWIDLER. Yes, sir.

Mr. OSTERTAG. Other increases are the difference between the two figures?

Mr. SWIDLER. That is right.

Mr. OSTERTAG. But you have not absorbed, as the chairman inquired, the $400,000 increase during fiscal year 1963, and you are asking for that money for fiscal year 1963 before the year ends?

Mr. SWIDLER. That is right. We are asking for a supplemental.

Mr. THOMAS. Go ahead.

Mr. SWIDLER. Of the total appropriation for fiscal year 1964, $7,106,000 would be for our work in the natural gas field, an increase

of $1,023,000, and $4,756,000 would be for the various electric power activities of the Commission, an increase of $648,000.

HIGH ADMINISTRATIVE COSTS

For the administration work of the agency we are asking for $863,000, which is a nominal increase of $28,000.

Mr. THOMAS. You have 86 people for administration alone.

Mr. SWIDLER. I believe this is just pay increase.

Mr. THOMAS. For administration it gives you a round total of 86 people, and that is quite a few people for administration. Then that does not take care of the housekeeping activities, either. That is top-side administration, just what it says. When it comes to housekeeping activities, that is another question. This does not include all your administration.

Mr. SWIDLER. For reproduction of opinions and that sort of thing.

Mr. THOMAS. Payroll, budget, personnel and everything else we normally refer to as housekeeping activities.

SUMMARY OF POSITIONS AND FUNDS BY ACTIVITY

Mr. OSTERTAG. Perhaps I am unable to put it together properly, but I understood your figures to mean that there was a $1,700,000 increase over last year. That was your overall increase; is that correct?

Mr. SWIDLER. Yes, sir.

Mr. OSTERTAG. Now you point out that in the natural gas field program you are asking for an increase of $1,023,000?

Mr. SWIDLER. That is right, sir. $1,699,000 is broken down to $1,023,000 for natural gas, $648,000 for electric power, and $28,000 for administration.

Mr. THOMAS. Mr. Ostertag, I think it will simplify everything if you will turn to the table on page A–16, which we will insert in the record.

(The table referred to follows:)

FEDERAL POWER COMMISSION

Statement of positions and activity costs, 1962 actual and 1963 and 1964 estimated

Activity	1962 actual		1963 estimate		1964 estimate		Increase, 1964 over 1963	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
Natural gas industry:								
Certificates of convenience and necessity	163	$1,221,989	216	$1,626,600	216	$1,687,800	------	$61,200
Rate filings	68	498,752	70	526,600	70	546,400	------	19,800
Rate cases	269	2,016,199	361	2,695,800	433	3,368,800	72	673,000
Enforcement of uniform accounting	10	76,371	16	124,200	19	152,800	3	28,600
Gathering and analysis of data	8	58,448	10	78,000	10	81,000	------	3,000
Publications	1	5,455	2	11,500	2	11,900	------	400
Total:								
Salaries	519	3,877,214	675	5,062,700	750	5,848,700	75	786,000
Travel	------	217,792	------	290,000	------	290,000	------	----------
Other expenses	------	563,280	------	730,300	------	967,300	------	237,000
Total activity costs	------	4,658,286	------	6,083,000	------	7,106,000	------	1,023,000

FEDERAL POWER COMMISSION

Statement of positions and activity costs, 1962 actual and 1963 and 1964 estimated—Continued

Activity	1962 actual		1963 estimate		1964 estimate		Increase, 1964 over 1963	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
Electric power industry:								
Regulation of rates	15	$116,043	25	$186,300	55	$449,100	30	$262,800
Enforcement of uniform accounting	9	69,955	9	70,300	14	113,300	5	43,000
Regulation of finances and operations	15	120,158	14	114,400	14	118,500	------	4,100
Power system analysis	61	477,340	73	579,400	73	600,300	------	20,900
Interconnection and coordination	7	55,960	18	144,000	21	173,100	3	29,100
Gathering and analysis of data	23	176,122	25	190,600	25	197,500	------	6,900
Publications	14	111,105	14	112,700	14	116,700	------	4,000
Total:								
Salaries	144	1,126,683	178	1,397,700	216	1,768,500	38	370,800
Travel	------	19,524	------	25,000	------	25,000	------	----------
Other expenses	------	163,980	------	302,300	------	397,500	------	95,200
Total activity costs	------	1,310,187	------	1,725,000	------	2,191,000	------	466,000
Non-Federal hydroelectric projects:								
Licensing	91	709,175	99	766,500	107	868,900	8	102,400
Supervision of licensed operations	22	168,798	26	191,800	26	198,800	------	7,000
Headwater benefit determinations	17	130,029	18	143,300	18	148,500	------	5,200
Licensed project accounting	48	376,259	48	381,200	48	395,100	------	13,900
Total:								
Salaries	178	1,384,261	191	1,482,800	199	1,611,300	8	128,500
Travel	------	118,592	------	166,000	------	166,000	------	----------
Other expenses	------	200,361	------	246,200	------	283,700	------	37,500
Total activity costs	------	1,703,214	------	1,895,000	------	2,061,000	------	166,000
Federal river development projects:								
Reports and recommendations	44	----------	48	----------	48	----------	------	----------
Salaries	------	363,198	------	412,500	------	426,500	------	14,000
Travel	------	14,880	------	15,000	------	15,000	------	----------
Other expenses	------	53,240	------	60,500	------	62,500	------	2,000
Total activity costs	------	431,318	------	488,000	------	504,000	------	16,000
Administration:								
Salaries	78	581,189	86	714,300	86	740,000	------	25,700
Travel	------	22,454	------	24,000	------	24,000	------	----------
Other expenses	------	83,941	------	96,700	------	99,000	------	2,300
Total activity costs	------	687,584	------	835,000	------	863,000	------	28,000
Total salaries	963	7,332,545	1,178	9,070,000	1,299	10,395,000	121	1,325,000
Total travel	------	393,242	------	520,000	------	520,000	------	----------
Total other expenses	------	1,064,802	------	1,436,000	------	1,810,000	------	374,000
Grand total, all activities	------	8,790,589	------	11,026,000	------	12,725,000	------	1,699,000
Plus unobligated balance	------	2,411	------	----------	------	----------	------	----------
Less proposed supplemental due to pay increase	------	----------	------	−400,000	------	----------	------	+400,000
Less reimbursements for emergency planning functions	------	----------	------	----------	------	−50,000	------	−50,000
Grand total, appropriation or estimate	------	8,793,000	------	10,626,000	------	12,675,000	------	2,049,000

Mr. THOMAS. This table tells the complete story. First is the natural gas activity, which gives your employment in dollar figures for 1962, 1963, and 1964. Then you have your electric power industry, non-Federal hydroelectric projects, Federal river development projects and administration. The other objects are broken down in some detail further in the justification. We are going to have to supplement this table to get the complete picture.

REGIONAL EMPLOYMENT

Take the table way in the back of the book, which shows their breakdown. This is about the only time you allude to your regional offices—Atlanta, 26, Chicago, 21, Fort Worth, 20, New York, 21, San Francisco, 34. Including 38 in Houston, you have 160 people in your regional offices.

Your justification is silent as to what the people do in those offices. We know, but we still like to have the justification. Be prepared to break that down when you get under your natural gas and power industry.

Mr. SWIDLER. Very good.

RECENT INCREASES IN EMPLOYMENT

Mr. THOMAS. You have a sizable increase here every year. I read this yesterday and last night. I do not know why, but I read every word of it. I could not turn it off. I never heard such poor-mouthing in my life. I counted 15 or 16 times where they say they have just got to have more staff.

Who runs that Commission over there? Is it the staff or the Commission? My people say they never see the Commission, that it is always the staff. I guess that is the reason they have to have more staff. They say this about 16 times in this justification.

Mr. JONAS. Will the chairman yield?

Mr. THOMAS. Yes.

Mr. JONAS. We increased them so much recently, I thought they would come in with a revision downward this year.

Mr. THOMAS. Fiscal year 1959 they had 844 employees. In 1960 we increased 9 up to 853. Then in 1961 we decreased it 15, to 838. Then here comes 1962, an increase of 125, to 963. Then in 1963—that is when our present friends came in and really went to town, and to show you how timid they are, they wanted 215 more people than they had last year, 1,178. I am afraid they got them. Now in 1964 their appetite is still good, 1,299—just rounded down from 1,300.

Mr. SWIDLER. This is the request we are here to justify.

Mr. THOMAS. Go ahead.

Mr. SWIDLER. This is our opportunity to try to show you that this would be an effective way to use the Government's money.

Mr. THOMAS. How many people do you have in your regional offices? We have already detailed them for the record here.

Mr. SWIDLER. On the power side, roughly 125 people.

ORGANIZATION OF COMMISSION

Mr. THOMAS. This gives the organizational breakdown with the top people enumerated. Office of the General Counsel has 143 jobs. 1 GS–18, 1 GS–17, 1 GS–17—2—4 GS–16, 7 GS–15, 13 GS–14, 113 GS–13 and below, making a total of 143 positions.

To implement that in the Office of the Hearing Examiners, about the only time you mention it is in the chart, you have 19 hearing examiners, and 18 GS–13's and below. What is the total hearing examiners you have? Is that figure of 19 correct?

Mr. SWIDLER. I think that is right. I think we are planning on perhaps 1 more, a total of 19 or 20 hearing examiners.

Mr. THOMAS. How many more attorneys do you have assigned to the hearing examiners? You have 18 GS–13's and below. How many of these are secretarial out of the 18?

Mr. SOLOMON. The GS–15's are the hearing examiners themselves. The other people are mostly secretarial. There are two technical people assigned. With that exception, all——

Mr. THOMAS. What do you mean by "technical people"?

Mr. FREEMAN. One is an accountant and one is an engineer.

Mr. THOMAS. You have 16 secretarial, 19 hearing examiners, 1 engineer, and 1 accountant, making a total of 37.

I can well imagine the hearing examiners need technical assistance in the way of economics, et cetera. I notice the Bureau of Economics has 30 people in it. It has the Chief Economist at 18, 1 GS–16, 3 GS–15's, 4 GS–14's, 21 GS–13's and below. Proceed, Mr. Chairman.

Mr. SWIDLER. Before getting into the justification for these positions and the money involved in hiring these people, let me give you the overall breakdown. We are asking for 121 new positions, 75 for nautral gas, 46 for power and no increase for administration.

Mr. THOMAS. You already have 78-plus for administration.

Mr. SWIDLER. Yes, sir.

LARGE NUMBER OF JOBS FOR ADMINISTRATION

Mr. THOMAS. May I ask the committee to turn again to the chart. Look at administration. There are 5 Commissioners and 23 other other positions in their immediate offices, a total of 28 positions. Office of Special Assistant to the Commission, 13 positions. Office of the Secretary, 11 positions. You say you have 86 positions for administration alone.

Then you have to take up the Office of Personnel, 14; Office of Administration of the Director, Public Information Office, another 10. You have Division of Finance, Division of Management Assistance, Division of General Services. What is General Services?

Mr. SWIDLER. General Services includes reproduction of opinions and other material. Those are the real housekeeping positions, you might say. We have a vast amount of paperwork.

Mr. THOMAS. 24, 26, 45—you have 200 people here outside of the 78 for what you call administration, doing administration and housekeeping here for some 1,300 people. Then I imagine you have small duplicate setups in your 160 people in your 6 regional offices.

Mr. SWIDLER. Mr. Chairman, maybe calling this group the administrative group is a little misleading if you break it down. Of course, the number of Commissioners is fixed by law.

Mr. THOMAS. You have your hearing examiners; the other are purely administration. That is subtracting 37. Office of the Secretary, Office of the Assistant to the Commission——

Mr. SWIDLER. Office of Special Assistants, for example, those are the men who prepare the drafts of the Commission's opinions. This is an opinion-writing group and not an administrative group as you might think, who just supervise other people. These are men who study the records and assist the Commission in analyzing cases, and help us in writing our opinions.

The hearing examiners are, of course, not truly an administrative group, either. They are not a group of supervisors. The Office of the Secretary keeps track of our vast amount of paperwork, and decisions are issued in his name.

COMMISSION MEETINGS

Mr. THOMAS. How often does the Commission sit? Do you have a regular schedule?

Mr. SWIDLER. We have a regular meeting day that we do not always meet on. We normally meet all day on Wednesday, but, suiting the convenience of the members of the Commission, that may be postponed to a Thursday and sometimes Friday.

In addition, of course, we meet on particular cases on other days. I guess we average two meetings a week, one of them an all-day meeting where we handle a very full agenda, which usually runs in the neighborhood of 75 to a hundred or more items. Then if we have particular problems to dispose of, which would hold up the volume of material on our agenda, we would have a special meeting on that matter.

NUMBER OF PROCEEDINGS FILED

This is in addition, of course, to our oral arguments. We spend quite a bit of time listening to oral arguments on various cases on appeal from the decisions of the examiners. We are a decisional agency, Mr. Chairman. We handle a vast amount of litigated cases. Our cases number in the thousands. We have over 10,000 proceedings filed before us, Mr. Chairman. We are responsible for the regulation of two vast industries in this Nation.

Mr. JONAS. Would you permit an interruption?

Mr. SWIDLER. The amount of work is not within our control.

Mr. JONAS. How many of those 10,000 finally come to the Commission, what percentage?

Mr. SWIDLER. I think most of them finally come to the Commission, Mr. Jonas.

RELIANCE ON THE COMMISSION STAFF

Mr. THOMAS. The staff runs the Commission over there, according to the industry. Who wrote this justification? It is very fine. Mr. Cashell, did you write that?

Mr. CASHELL. Not completely; no, sir.

Mr. THOMAS. Who wrote it? It is a work of art. I commend you for it. It is a little skimpy in some parts, but the narration is out of this world.

Mr. SWIDLER. A draft was prepared by Mr. Pilcher and Mr. Cashell, and it was revised in my office by Mr. Freeman and myself.

Mr. THOMAS. It certainly places a lot of emphasis on the staff. Every other word is staff, staff, staff.

You mean this staff runs the Commission and they are under civil service, and nobody has elected them, nobody appoints them, they run the show, opinionmaking, policyforming, and John Public never has a chance at them; is that right?

Mr. SWIDLER. I would not accept quite that statement of it, Mr. Chairman.

Mr. THOMAS. You give us your version of it.

Mr. SWIDLER. It is obvious that in an agency of 1,000 people, the stage we are in now, that the 5 Commissioners cannot do all the work. We have to use our staff.

Mr. THOMAS. You do not run it now; the staff runs it.

Mr. SWIDLER. We have a thousand people to help us. Our problem is one of getting the most effective use of that thousand people, as in other large organizations.

The question is: How effectively do we use staff? Do we rubberstamp what they do, as some people think? Or do they act as the arms of the Commission in carrying out our policies and our programs? In my opinion, we do run our show. You cannot run any large organization without responsible staff people. If I were to tell you that we dictated every decision of every staff member and closely supervised every negotiation they participated in, you would know that we were claiming more than we could perform. It is up to us to try to get good people. It is up to us to try to provide leadership for them, to set sound polices, to see that our policies are observed.

Mr. Chairman, I think we are doing this. I do not claim 100 percent, but I do think, by and large, that our staff is responsive to the leadership and the policies enunciated by the Commission. I will say for myself, and I think for the other members of the Commission, that we put up with no less. We are not a hundred percent successful, but we do not yield knowingly to staff domination.

On the other hand, we trust our staff. We want people on our staff whom we can trust, and we have given them a range of discretion so long as they are following Commission policies, which on the whole they do, and well.

Mr. THOMAS. Is there any disagreement between the staff and the Commission?

Mr. SWIDLER. No; there is no disagreement between the staff and the Commission, Mr. Chairman. There is disagreement between——

Mr. THOMAS. The Commission approves what the staff does, is that right? That is the general thinking of the industry that you regulate, that the staff runs it.

Mr. SWIDLER. I think the industry is not always objective about it. Of course, there is reliance on staff, as there must be. There are differences between individual Commissioners and staff.

PERSONNEL UNDER "SCHEDULE C"

Mr. THOMAS. How many of these people are under schedule C on your staff, your policymaking jobs?

Mr. SWIDLER. Other than the people in our immediate offices, as I recall, at the moment only our General Counsel and the executive director are schedule C.

Mr. THOMAS. The rest of them are policymaking people, you have no control over them, they have a deed of trust on the job for life, so they think.

Mr. SWIDLER. We are discussing with the Civil Service Commission whether or not that group ought not be increased. It may be that it will be. But at the moment there are only two schedule C positions other than the people in the immediate offices of the Commissioners.

POLICY FORMULATION BY THE STAFF

Mr. THOMAS. What part of the decisions, whether they are rubber stamped—call it whatever you want to—by the Commission, what part of the policy is formed by the staff?

Mr. SWIDLER. I do not know how to answer the question in that way. Policy is developed by interaction between staff and the Commission. We cannot sit in an ivory tower and develop a policy without the help of our staff. We work with the staff on the facts. We not only listen to the staff's policy suggestions, we welcome suggestions.

I want to assure you, Mr. Chairman, that we exercise our own judgment on these matters; within the limits of our ability to understand these problems and to arrive at correct decisions, we do so on the basis of our own judgment. So far as I know, when we have done so, the staff carries out our decisions.

We feel free to reject staff advice, and we frequently do, Mr. Chairman. We feel free to reverse examiners. I think if you will read our opinions, you will see that we are a very independent-minded independent agency. But I will not tell you, because it would not be true, that we are independent of staff. We are heavily dependent upon our staff. I regard the job of the Commission not as being independent of our staff but of getting the staff to function on the basis of the policy and the programs of the Commission, and to provide leadership rather than use a club. I think we have achieved a great deal, and we have, in my judgment, a responsive staff on the whole.

There are occasional problems. We try to take care of them as they arise. I think a lot of the complaints are based on disagreement with our conclusions, and perhaps there may be the feeling that a policy adopted by the Commission can be discredited if it is attributed to staff rather than the Commission itself.

We listen to complaints about some of our policies, we look at them, and we find that some of the policies ought to be changed, and they are changed. In others, when we look at our policies, we find them to be sound and we leave them in effect.

I cannot tell you that we could run the agency without staff. The staff is the key to doing our job. The Commission can no more run the Federal Power Commission without help than Mr. Rathbone can run the Standard Oil Co. of New Jersey without a staff.

Mr. THOMAS. We are not objecting to the help of the staff. My point is that the tail wags the dog.

Mr. SWIDLER. I would like to try to persuade you, Mr. Chairman, that I am not a dogtail type. It is a big job running an agency. The staff is there as a career service and you are in for a few years and then you are out. It is true they know lots more about the details of some of these problems than the members of the Commission do, but we try to penetrate these problems and to make decisions on the merits.

When the new Commission came in we invited suggestions on policies and procedures from the whole industry. The Commission looked at every one. We have adopted every change that commended itself to us as being sound.

I think that people who are disappointed tend to blame the staff. Perhaps that is partly our fault. Maybe we don't stand up and defend the policies enough on our own. I try to do this, but perhaps not effectively.

I am here, however, taking responsibility, and the Commission is here taking responsibility for everything we do. If there is something, Mr. Chairman, that you think is not right, we will either try to defend it or we will change it. I am blaming nothing on staff.

Mr. THOMAS. Well, that is a commendable position to take. What are some of your headaches, some of the big problems your staff is wrestling with now?

Mr. SWIDLER. I might say we have now in the Bureau of Natural Gas alone 70 research projects which the Commission has asked the staff to investigate. These are studies to help us reach our conclusions. There are 70 different items where we have said we want a report.

RELATION OF THE COMMISSION TO THE ELECTRIC POWER INDUSTRY

We have a long list of subjects assigned to our economists where we feel we need more information. Our Bureau of Power is engaged in many, many projects intended to illuminate various problems which trouble the Commission.

Mr. THOMAS. Do you think for a minute that the brains of the electric power industry are wrapped up in your staff?

Mr. SWIDLER. No, sir, I certainly do not, but they have a different function than we have. I don't think we can run the electric power industry and I don't think the electric power industry can run the Federal Power Commission. We have two different jobs.

Mr. THOMAS. Is the industry trying to run the Federal Power Commission or is it the other way around, the Federal Power Commission trying to run the industry?

Mr. SWIDLER. We are trying to regulate——

Mr. THOMAS. The industry is very old and has done very well up to now without the assistance of the Federal Power Commission and its very distinguished staff. The country has grown and the industry has grown.

Mr. SWIDLER. I have great admiration for the industry but I think that the Federal Power Act was a wise piece of legislation, and I was appointed to help administer it. I think we have a real contribution to make toward an effective electric power industry and natural gas industry, and we are trying to do our best with the authority and the funds that Congress has provided.

If I were to tell you that I thought that there was nothing that the Federal Power Commission could contribute to the public interest in regulating the electric power industry I should not have taken this job.

Mr. THOMAS. What is the function of the Commission with reference to the electric power industry? Is it your function to go out and tell the industries a plant should be in X spot rather than Y spot?

Mr. SWIDLER. I don't think so.

Mr. THOMAS. Suppose they made a mistake in a particular type of financing and it should have been some other way? You have your Bureau of Economics. How does it get into the picture outside the field of rates? Where do you enter outside of certification?

ELECTRIC POWER FUNCTIONS OF THE COMMISSION AND OTHER AGENCIES

Mr. SWIDLER. Let me list our functions in the electric power field.

Of course, the oldest is the licensing function for hydroelectric projects. The keystone of the conservation movement to conserve the Nation's resources for its people is hydroelectric licensing rather than giving away the right to develop the Nation's rivers without adequate safeguards.

There are 16 million kilowatts of capacity which have been installed on the Nation's rivers under Federal Power Commission license——

Mr. THOMAS. That is Corps of Engineer work. You don't get into the Department of Interior, do you?

Mr. SWIDLER. Yes; we do.

Mr. THOMAS. To what extent?

Mr. SWIDLER. We review all the project proposals of both the Corps of Engineers and the Bureau of Reclamation to assure ourselves and the country that their proposals make adequate and effective use of the irreplacable hydrosite resources of this country.

Mr. THOMAS. You have no veto in either regard; do you?

Mr. SWIDLER. No, sir; advisory.

Mr. THOMAS. You really set the rates, do you not, in the Rivers and Harbors Section, and not Interior?

Mr. SWIDLER. Interior is the marketing agency for Corps of Engineers projects. The rates of Interior must be approved by the Federal Power Commission so that we are, you might say, the agency of Congress to assure the Congress that the rates are high enough. This is a little different responsibility from that which we exercise with respect to rates of private companies where our function is to fix ceilings.

With respect to the Federal rates, I think Congress intended a little different responsibility——

Mr. THOMAS. What do you mean Federal rates?

Mr. SWIDLER. I mean rates at which the Department of the Interior disposes of the power from some of its projects and projects built by the Corps of Engineers.

Mr. THOMAS. You don't set that rate, though ,do you?

Mr. SWIDLER. We approve it.

Mr. THOMAS. Do you set it?

Mr. SWIDLER. We approve it.

Mr. THOMAS. Do you have a veto?

Mr. SWIDLER. Yes, sir.

FEDERAL RATES IN NORTHWEST UNITED STATES

Mr. THOMAS. A lot of people in the country think the Federal rate is not a break-even rate; is that true?

Mr. SWIDLER. Which particular project?

Mr. THOMAS. There are many in the Northwest that I hear some of the Interior people talk about. Whether or not it is true I don't know. We don't take a look at it here.

Mr. SWIDLER. I think that the situation of the Bonneville Power Administration, in particular, is that for the last several years it has not been earning the return on investment that it has set for itself or that Congress has set for it as a standard.

Mr. THOMAS. As a self-liquidating project.

Mr. SWIDLER. That is right, but that past excess earnings over that standard thus far has picked up the deficit.

Within the next few years Bonneville will be in a position where it must either improve its financial performance or raise its rates.

Mr. MORGAN. Or market the seasonal surplus.

Mr. SWIDLER. That is what I mean by improvement in financial performance.

Mr. THOMAS. Regardless of the method it is in a position where it has to raise the rate or do something. Is that right?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Go ahead.

Mr. SWIDLER. These are some of the functions on the power side. I have mentioned the licensing function with respect to non-Federal projects. These are elaborate cases. Some will become historic, like the *High Mountain Sheep* case which we are now hearing, because they concern whole regions of the country that are vitally interested in whether the river is developed, how it is developed, and by whom.

Then we have our function with respect to reviewing the projects of the construction agencies of the United States, the Corps of Engineers and the Bureau of Reclamation, to be sure that they make adequate use of the Nation's hydro potential.

Of course we must administer the licenses we grant. Licenses are complex documents requiring the companies to conform their operations to navigation and flood control requirements, to avoid nuisances, to maintain fish and wildlife and recreational facilities, and other requirements. These licenses require a great deal of administration and there are now several hundreds of them.

FPC AND FISH AND WILDLIFE JURISDICTION

Mr. THOMAS. Does your jurisdiction overlap with that of Interior's Fish and Wildlife Service?

Mr. SWIDLER. I don't think it overlaps. We don't have a research staff in the fisheries field. The question of effect on fish has become a key question in a number of our license cases. Of course, we decide these cases sitting in a quasi-judicial capacity and making decisions on the record.

RELATION OF FPC TO GROWTH OF THE POWER INDUSTRIES

Mr. THOMAS. Here is the thing that troubles me in reading your justification—more staff. The word "poormouth" comes to mind. I have never heard such crying. Here is an agency 40 or 50 years of age. In the short time you have been there you want an increase in staff of more than 50 percent. How did the country get along before you folks came in? The electric power industry did pretty well before. The gas industry did well. They are serving more people. You set out some 13 trillion units, that it has grown 33 percent, and so on. They got along pretty well and Congress wonders why all this grab for power and empire building.

Mr. SWIDLER. I think you put your finger on a key question. I didn't understand when I took this job that things were quite that rosy, Mr. Chairman. The Federal Power Commission was being held up as an example of the breakdown of Federal regulation. We had a backlog jammed so tight that nothing would move. We had the industry complaining that they couldn't get certificates, that all their revenues were under suspension, that their financial condition was impaired because they didn't have solid books of account. In some pipeline cases suspensions had run on for so many years that there were more rates under suspension than the entire equity capital of the company. It impaired their ability to raise money and the confidence of their security holders in the solvency of the industry.

This was not a product of an adequate staff being well administered. This was a product of too few people. We came to you with what I think is a relatively modest request for enough people to get rid of these backlogs, to get these cases moving, to stop being a barrier in the progress of the industry, and at the same time to be able to assure the consumers——

Mr. THOMAS. Wait a minute. You are making a statement you cannot back up to save your neck. The industry grew and grew and grew, doubled and redoubled before they ever heard of this Commission. Is that not true? If not we will let you insert figures in the record, what they have done for the last 15 years.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. How can you say everything had gone to pot?

ELECTRIC POWER PRODUCTION DATA

Let us insert at this point in the record the increase in production, production figures for the industry in the last 15 years. I don't know of anything in the country that has grown any more than the electric power industry.

(The information follows:)

Electric utility installed generating capacity and net generation, United States, 1948–62

Year	Total generating capacity (kilowatts)	Net generation (1,000 kilowatt-hours)	Year	Total generating capacity (kilowatts)	Net generation (1,000 kilowatt-hours)
1948	56, 559, 838	282, 698, 214	1956	120, 696, 834	600, 667, 750
1949	63, 100, 334	291, 099, 543	1957	129, 123, 045	631, 507, 224
1950	68, 919, 040	329, 141, 343	1958	142, 596, 605	645, 098, 404
1951	75, 774, 725	370, 672, 814	1959	156, 840, 856	710, 005, 723
1952	82, 226, 444	399, 223, 620	1960	168, 002, 191	753, 350, 271
1953	91, 502, 249	442, 664, 515	1961	180, 667, 553	792, 038, 586
1954	102, 592, 410	471, 686, 354	1962	189, 852, 337	847, 485, 925
1955	114, 471, 868	547, 037, 985			

Mr. SWIDLER. I don't want to overstate. Certainly the industry had grown continuously, but I do think it was recognized that the Commission had become a drag on the progress of the gas industry. It was not contributing to the industry as it should have done.

Mr. THOMAS. If that is true maybe the answer is to cut down your activities if you were a drag on them. The industry didn't go up for the benefit of the Commission.

Mr. SWIDLER. No, sir.

Mr. THOMAS. The Commission is supposed to be for the benefit of the industry and the consuming public. Your statement indicates the industry was set up for the use and benefit of the Commission.

Mr. SWIDLER. No, and if we cannot demonstrate that we have been of some use to the consuming public and the industry I don't think you should give us this money.

Let me mention a few of the things we have done, Mr. Chairman. I have not got to point one of my justification.

Mr. THOMAS. All right.

Mr. SWIDLER. I think point one is a big point, and I am pround of it.

RECENT NATURAL GAS REFUNDS

In the last 18 months this Commission has ordered refunds of rates held in suspension by the interstate natural gas pipeline companies of this country——

Mr. THOMAS. $353 million.

Mr. SWIDLER. Over $350 million, yes, sir.

Mr. THOMAS. And your staff did it. The Commission had nothing to do with it.

Mr. SWIDLER. Well, the staff didn't do it before there was a new Commission. While I do not claim the Commission did it alone, I will say I don't think the staff did it alone.

Mr. THOMAS. The brains of the industry are over in your staff, which Congress does not elect or appoint. John Q. Public doesn't elect them and they thumb their noses at everybody. You cannot fire them and you cannot do anything with them. John Q. Public is helpless.

If I have made misstatements, straighten that out.

Mr. SWIDLER. I am proud of our staff but I will not admit we don't contribute to the agency, either.

Mr. THOMAS. Of course, and they are all fine gentlemen.

Mr. SWIDLER. They are not only fine gentlemen, most of them, but I think on the whole they do an effective job and a constantly improving one. It is the responsibility of the Commission to try to keep improving that performance, and I don't think we are going to do it by mistrusting them. I don't think we will do it by trying to beat them over the head with a baseball bat. I think we are going to do it by trying to strengthen the weak spots and by setting a high level of leadership, by having programs in which they can believe, and by a system of supervision which insures that our policies are being carried out. All of these things we are working on, Mr. Chairman.

Mr. THOMAS. Go ahead, Mr. Chairman. You are most persuasive.

Mr. SWIDLER. That is the nicest thing I have heard today.

NATURAL GAS RATE REDUCTIONS AND REFUNDS

We have not only refunded $350 million, but we have ordered rate reductions for the future of $62 million a year.

Mr. THOMAS. Do you supervise the rates of the various localities in retail rates?

Mr. SWIDLER. No, sir, retail rates are excluded from our jurisdiction. I don't mind telling you we are carrying on a survey to find out what happens to these refunds.

Mr. THOMAS. Whatever the retail rate is, you have no jurisdiction.

Mr. SWIDLER. That is right.

Mr. JONAS. At this point I wish you would put in the record what these returns have amounted to from the standpoint of changes in rates. You speak of $350 million and that sounds like a lot of money, but it involves an awful lot of gas. What was the reduction?

Mr. SWIDLER. Approximately 45 percent.

Mr. JONAS. That still does not give the figure I want. It went from what to what?

Mr. THOMAS. The gas people wanted an increase in rates. I find that true all over the country. What became of the $350 million that was returned? Who got the benefit of it, the people you don't regulate?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. You killed a big hog, didn't you?

Mr. SWIDLER. To answer Mr. Jonas' question, the amount under suspension, which translated itself into $350 million of refunds, was approximately $750 million. Those figures are not precisely comparable because the $350 million includes interest and the $750 million does not.

I would guess that without interest, the $350 million would be somewhere between $300 and $325 million, so we are talking about refunds of something like 40 percent of the rates which were under suspension on the average. This has varied from a few percent in some companies to a much higher percentage in others, but it has averaged out to about 40 percent.

Mr. JONAS. You don't have a figure which would show what the change in rate amounted to?

Mr. SWIDLER. In cents per Mc.f.?

Mr. JONAS. Yes.

Mr. SWIDLER. No, sir, I don't. We will put that in the record.

Mr. JONAS. Will you elaborate on your statement? I would like to see what that amounted to.

(The information referred to follows:)

Refunds ranged between 1.63 and 4.37 cents per Mc.f., or a weighted average of 2.39 cents per Mc.f., based upon the refunds of $297 million by principal pipeline companies representing 85 percent of the total refund of $350 million.

Mr. JONAS. In the amount of gas involved I have an idea the reduction is not substantial. The thing that makes it substantial is the great volume involved. Is that a fair statement?

Mr. SWIDLER. Yes, sir, I think as a percentage of the total price it is small. It would translate into a matter of a couple or three cents per Mc.f.

EFFECT OF REFUNDS ON RETAIL RATE REDUCTIONS

Mr. THOMAS. How much of that $353 million does the local consumer get? I have seen two or three instances where the local companies are increasing rates in the face of your rebate.

Mr. SWIDLER. This is a hard figure to come by.

Mr. THOMAS. Your staff must have known what it was doing.

Mr. SWIDLER. We are now conducting a survey, and it is a very elaborate thing.

Mr. THOMAS. It seems you are getting the cart before the horse.

Mr. SWIDLER. It is difficult to trace what happens to these refunds. With the cooperation of the State commissions we are now undertaking to get some reliable figures. I think these will be the first set of figures that are solid. I hesitate to anticipate the results of the survey, but I will say that in many cases you cannot demonstrate whether or not consumers have received the benefit of these refunds.

The local gas company may say that but for these refunds they would have increased their rates much more than they did, and what you find is not a rate reduction or a rate refund but an actual increase, and you have a judgment question as to whether there would have been an even greater increase but for the refund that the local gas company received.

In the case of some public systems they take the position that this is the public's money, anyway, and they don't make the refunds.

A very substantial part of the refunds do get back into the hands of consumers, Mr. Chairman, and I think this situation presents a real challenge to the State commissions.

Mr. THOMAS. I wish you would accentuate that statement, that a considerable part gets back into the hands of the consumers. You said awhile ago you couldn't say that, and now you say it does.

Mr. SWIDLER. We cannot limit refunds to the actual cash refunds to retail customers. Some companies, for example, put into effect rate reductions which are directly keyed to their refunds. Either way we do know that much of this does get back to the ultimate consumer. I hesitate to tell you what proportions can be demonstrated as going back to the ultimate consumer and what proportions cannot because we have not put all these figures together yet. I have had a briefing on the figures as they come in, and yet I hate to give exaggerated importance to incomplete figures.

PUBLIC AND PRIVATE POWER OWNERSHIP

Mr. THOMAS. Have you any information as to ownership of the various distribution systems throughout the United States? What part of them are publicly owned and what part privately owned?

Mr. SWIDLER. Are you talking about gas?

Mr. THOMAS. Yes.

Mr. SWIDLER. It must be at least 90 percent privately owned throughout the United States; about 93 percent.

Mr. THOMAS. What about electric power?

Mr. SWIDLER. In electric power it is about an 80–20 division, 80 percent private and 20 percent public.

Mr. THOMAS. Go ahead.

Mr. SWIDLER. There is relatively little public gas service, but at that even 7 percent of the industry is considerable, and the municipal systems, of which I believe Memphis, Tenn., is the largest, have recently organized a national trade association with headquarters here in Washington.

INFORMATION ON LOCAL RATES

Mr. JONAS. What are you going to do with this information after you assemble it? You have no authority to regulate the distributor.

Mr. SWIDLER. One of the primary reasons we assemble the information is that so many members of Congress ask us for it.

Mr. JONAS. You are assembling it, then, not with the idea of making official use of it but just to answer inquiries and to have it available for general information?

Mr. SWIDLER. Yes, sir. The purpose of the Natural Gas Act was to aid the consumer, and, of course, Congress left the local part of the job to the State commissions. I think Congress has a very natural interest in knowing how that second half of the job is being carried out.

Mr. JONAS. I just wanted the record to show that you do not contend you have any authority over the rates charged by the local distributor.

Mr. SWIDLER. We make no such claim.

Mr. JONAS. Your jurisdiction applies only to the pipeline operators?

Mr. SWIDLER. Yes, sir; and we are seeking the information through the State commissions.

ADDITIONAL STAFF TO REDUCE BACKLOG

Mr. WYMAN. Mr. Swidler, you have asked for about $1,600,000 for salary increases for staff additions?

Mr. SWIDLER. That is right.

Mr. WYMAN. Is that because, as presently staffed, you cannot meet the pending caseloads satisfactorily or you cannot meet the competition of the staffs of the competing power companies subject to your regulatory jurisdiction?

Mr. SWIDLER. It is because we do not have enough people to do our job properly to avoid the accumulation of new backlogs and to dispose of backlogs we already have, to decide these cases on an adequate record that will enable us to carry out our responsibilities in order to protect the public interest in fields where we have the responsibility.

Mr. WYMAN. You have made certain projections with regard to the reduction in that caseload if these staff additions are made. In other words, with the roughly 121 additional positions you expect substantially to decrease the pending caseload in the next fiscal year?

Mr. SWIDLER. Yes, sir; I think in 1964, if this committee and the Congress will accept our request and give us the tools, that you will see the Commission well launched on catching up with its caseload. This is something which has never been accomplished since the Natural Gas Act was passed.

Mr. WYMAN. Is there such a thing as a dollar value in savings estimated per additional man with respect to this subject?

Mr. SWIDLER. No, sir; but if you look at this $350 million of refunds, just this one figure, and relate our whole natural gas appropriation to it, it is only 2 percent. It seems to me an excellent investment. Of course, you might say this would have happened anyway, but it didn't.

ROLE OF STATE AGENCIES IN EFFECTING CONSUMER SAVINGS

Mr. JONAS. Of course, the chairman's point becomes pertinent there. It is a little different situation if you merely transfer $350 million from two or three big pipeline companies to a number of equally important corporate entities engaged in the distribution of gas than if you see that money ultimately going toward the reduction of gas rates to the consumers. The chairman's inquiry on that particular subject is very pertinent.

Mr. SWIDLER. You need some faith in State regulation, Mr. Jonas. I have faith that the State agencies ultimately will take hold of the job. A good many are doing a very excellent job of it now. This is a problem which has emerged into its present dimensions only recently, and there may be some slippage while they gear themselves up to handle the refund problem, but by and large I think they will do it. I don't think we can expect 100-percent performance from them, particularly since we don't attain 100-percent performance ourselves. However, increasingly over the years I think you will get a high percentage of translation of refunds at the interstate level into refunds to the ultimate consumers.

SIZE OF LEGAL STAFF

Mr. THOMAS. What do you do with a staff of 143 lawyers? Where are they located, all in the District of Columbia?

Mr. SWIDLER. There are not 143 lawyers. They are proposed 143 people on the legal staff.

Mr. THOMAS. And over and above this number do you have any lawyers assigned to regional offices?

Mr. SWIDLER. There are no lawyers assigned to the regional offices.

Mr. THOMAS. The legal department is all located here at headquarters?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. How many lawyers do you have out of the 143 people?

Mr. SWIDLER. The usual ratio is about 60–40. Sixty percent are lawyers and the others are secretaries.

Mr. THOMAS. How many lawyers are assigned to the Commission? You have four GS–15's.

Mr. SWIDLER. They are special assistants.

Mr. THOMAS. Do you have any more lawyers?

Mr. SWIDLER. These are all lawyers except for stenographers. I don't know how many of this total are legal positions. I do know that getting decisions written is a bottleneck. We need more good people to help us write our decisions.

Mr. THOMAS. You have 143 positions in the Office of the General Counsel. In an agency of this size you must have 100 lawyers.

Mr. SWIDLER. We don't now. We have 88 lawyer positions.

Mr. THOMAS. Let me talk to the lawyers here. Mr. Chief Counsel, how many lawyers do you have?

Mr. SOLOMON. Our ceiling as of this moment is 79.

Mr. THOMAS. How many did you have as of January 1 or January 15?

Mr. SOLOMON. Seventy-two, seventy-three, or seventy-four.

FUNCTIONS OF OFFICE OF GENERAL COUNSEL

Mr. THOMAS. What are the duties of the Office of the General Counsel? Break down your personnel and tell us what they do.

Mr. SOLOMON. Well, first of all, we should be clear that unlike most of the other agencies——

Mr. THOMAS. How long have you been with the agency?

Mr. SOLOMON. About 8 months.

Mr. THOMAS. Where are you from?

Mr. SOLOMON. For about 15 years I was with the Federal Communications Commission.

Mr. THOMAS. Go ahead.

Mr. SOLOMON. Three years with the Department of Justice in the Antitrust Division, Chief of their Appellate Section.

In our shop, unlike most of the other agencies which you have before you, all of the legal work——

Mr. THOMAS. That is what they all tell us. Go ahead.

Mr. SOLOMON. Most of those with which I am familiar, and I think I am familiar with most of them——

Mr. THOMAS. Give us a breakdown as to what they do and the number you have assigned to hearing examiners, the number on appellate cases, and so on.

Mr. SOLOMON. About five do strictly appellate work where people appeal from our organization to the courts.

We have about 25 under the Assistant General Counsel doing power work. That includes all electrical work, including hydroelectric licensing.

Mr. THOMAS. Twenty-five lawyers?

Mr. SOLOMON. Approximately. These are people who not only handle the day to day processing but are the Commission counsel in all the litigated cases.

We have about six or seven of them who are basically doing rules and legislative work.

Mr. THOMAS. How many did you say you had there?

Mr. SOLOMON. About six.

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Mr. THOMAS. Have you had any appreciable legislative work in the past 2 or 3 years?

Mr. SOLOMON. I think there were over 140 bills upon which we had to prepare reports for Congress during the last session of Congress alone. This is not only our programs but other people's programs.

We have fairly extensive legislative programs, not always enacted, but programs upon which we work.

We have a great deal of legislative work because we not only have to comment on bills directly related to the Natural Gas and Federal Power Acts but on many bills relating to land and waterways throughout the country in which we have an interest, and where Congress expects us to reply.

Mr. THOMAS. That is six of them. You have another five or six on appellate work. Where are the rest of them?

Mr. SOLOMON. Primarily in one of the three parts of the natural gas work.

Mr. THOMAS. How many are assigned to the hearing examiners?

Mr. SOLOMON. We don't have lawyers assigned to the hearing examiners from the General Counsel's Office. Each of the hearing examiners is a lawyer. Each of the hearing examiners is his own lawyer. We may have a lot of lawyers in the gas and power field assigned in particular cases before them. A case before an examiner will always have at least one lawyer or perhaps two assigned to it.

LAWYERS DOING TRIAL WORK

Mr. THOMAS. Your terminology is better than mine. Just give me the number of lawyers who really do trial work before the hearing examiners.

Mr. SOLOMON. In the gas field I would say about 20 to 25 from time to time. They move in and out. Some of them will be doing hearing work one day and nonhearing work the next day, but there are at least 20 or 25 on the gas side. I would say there are five to eight in hearings on the power side.

Mr. THOMAS. You have two brandnew distinct units, one for gas and one for electric power.

Mr. SOLOMON. There always has been a splitup between gas and electric power. They involve different problems. The laws are different.

Mr. THOMAS. That is not new, then.

SEPARATION OF INDEPENDENT PRODUCER AND PIPELINE LEGAL WORK

Mr. SOLOMON. No. There is a new division. We found about a year ago, before I got there, that problems were just too divergent with pipeline and independent producer legal rate work combined. The Commission more and more saw that the regulation of rates of independent producers of natural gas were different from the problems in pipeline regulation. In the Bureau of Natural Gas these two were split apart and this was a more efficient way of handling it, having people specialize on particular problems.

The same split was made in the office of the General Counsel.

Mr. THOMAS. Our lawyers there are able to figure out rate cases for gas and electric power, are they not? You didn't have to split them up so fine.

You say Mr. Swidler did that before you got there?

Mr. SOLOMON. I don't know whether Mr. Swidler had done that before I got there, but I think there is a much greater similarity between an electrical rate case and a pipeline rate case, than between a pipeline rate case and a producer rate case.

When you get into regulating the rates where gas is sold by independent producers to pipelines you are really dealing with a different type of animal.

ADDITIONAL POSITIONS REQUESTED

Mr. THOMAS. How many additional positions do you have in the legal department?

Mr. SOLOMON. The increase between 1963 and 1964 is 131 to 143.

Mr. THOMAS. If you take all the good lawyers you have over there and some of them do a little rate work on power and electricity, you would not need those 12, would you?

Mr. SOLOMON. We think we do, sir. This is not only lawyers.

Mr. THOMAS. Not only lawyers. It includes secretarial help.

Mr. SOLOMON. I think that is true. Sometimes we think our greatest need is for better secretarial help. It is much more difficult to find.

Mr. THOMAS. A little briefing work on a few points of law helps a little, you know.

Mr. SOLOMON. The point I want to make, sir, if I may, is that a lot of other agencies throughout this Government, instead of having one centralized Office of General Counsel, as the Hoover Commission said they should and as this particular Commission has, have lawyers spread throughout the bureaus; then usually they have a relatively small Office of General Counsel, also.

Mr. THOMAS. Did you ever do any private practice before you came to the Government?

Mr. SOLOMON. No.

Mr. THOMAS. In some of these towns, a lawyer will take more different types of cases than Carter had little pills. He is a specialist in all of them. You want to break yours down between gas and electric rates.

Mr. SOLOMON. We find by doing this we avoid retraining each individual man as he moves into another case. We find we get greater efficiency out of the existing manpower by having relative specialization.

Mr. SWIDLER. I think some of the big law firms specialize some of their people on producer rates, too. You see the same people at the hearings, at any rate.

Mr. JONAS. May I ask a general question, Mr. Chairman?

Mr. THOMAS. Yes.

ADDITIONAL STAFF TO REDUCE NATURAL GAS BACKLOG

Mr. JONAS. I thought you told us last year if we gave you 215 new positions you could get rid of the gas case backlog and would not need any more. Now you come in here wanting 121 more, after you have settled the big gas case. Is that consistent?

Mr. SWIDLER. No, sir. I do not recall saying that the level which we asked for 1963 would take care of all of our backlog problems, but I do want to point out, Mr. Jonas, that the 75 additional positions in the Bureau of Natural Gas are arrived at by transferring 11 positions from Pipeline Rates, where there is a decline, Mr. Jonas, and applying those against 86 additional positions in Producer Rates, Pipeline Rate Investigations, and Uniform Accounting—all a part of Rate Administration. There is a decline in the Pipeline Rate staff itself, for the reasons you mentioned.

That backlog, I think, now is in pretty good shape. Here is one corner of our job where I think we can say to you we are now, after 1 year, in shape to handle our caseload on a substantially current basis from now on. We still have three other parts of the job that are not in as good shape.

Mr. JONAS. Seventy-five of your increase requested is for Natural Gas?

Mr. SWIDLER. Yes, sir; and we are asking for 78 more people in Producer Rates alone.

Mr. JONAS. Why can you not transfer somebody?

Mr. SWIDLER. We are, sir. We are transferring 11 people from Pipeline Rates, but we do not have that many extra people we can transfer out of Pipeline Rates.

In the case of Producer Rates, we still have with us, I regret to say, Mr. Chairman, most of the producer rate cases ever filed with the Commission. We have managed to dispose of a total of 200-odd cases one way or another by deciding on the particular factual situation or mostly by settlement. This has involved a substantial amount of refunds, something on the order of $30 million. We have disposed of 289 producer rate cases, but we have piled up behind us producer rate suspensions equal to $151 million a year——

AREA RATE CASES

Mr. THOMAS. But you have been working on the Permian Basin case now for 18 months, and you have been working on one in the Louisiana area. How many more? When are you going to get it worked out so you can take these things on an area basis rather than on an individual case basis?

Mr. SWIDLER. This is a program for several years, sir. I want to make that clear, because I would not want next year to have it said that I told you we were going to dispose of those cases in fiscal 1964. I do think we will dispose of the lead case, the Permian case, but this will still leave the other areas in which we must establish area rates. As you know, this is an entirely new regulatory approach that we are working out, and it is not going fast, but I think we are building solidly and are making a real contribution to regulatory techniques and to the whole concept of regulation in a very difficult field.

EMPLOYEES FOR NATIONAL POWER SURVEY

Mr. THOMAS. How are you proceeding with your study of electric power interconnecting systems, and so forth? How many employees did you assign to that particular study and when will they finish the study?

Mr. SWIDLER. I will ask Mr. Brown to check on the number of employees and answer the rest of the question and fill in on the number of employees.

Mr. Chairman, I think we can look with great pride at the progress of the national power survey.

Mr. THOMAS. How far is it along? It has been in operation about 14 months, has it not?

Mr. SWIDLER. I do not think quite that long, sir. We are still on our initial schedule of completing the study by the end of the fiscal year and compiling and writing the report in fiscal 1964.

Mr. THOMAS. How many employees have you on that, Mr. Brown?

Mr. BROWN. We have in our Washington office, Mr. Chairman, about 18 people working on the national power survey.

Mr. THOMAS. All your work is done in the field, is it not?

Mr. BROWN. Then we have a representative group in the field working on the national power survey. Much of the basic data are being collected and analyzed in the regional offices.

Mr. THOMAS. How many people have you in the regional offices?

Mr. BROWN. We have 122 total.

Mr. THOMAS. What part of their time is consumed in this national power survey? You have already investigated all the river locations. We have not made any new river findings in the last 40 or 50 years, have we? I assume they have about caught up on that, have they not?

Mr. BROWN. This picture keeps changing quite rapidly.

Mr. THOMAS. You have been having heavy rains?

Mr. BROWN. There are always new possibilities which come into focus and which need further examination.

Mr. THOMAS. What part of your 120 or 125 people are in the regional offices? All the regional offices, outside of one, are assigned purely to power?

Mr. SWIDLER. With the exception of two, sir.

Mr. THOMAS. What is the second one? One is in San Francisco.

Mr. SWIDLER. Yes, sir. We have about 25 accountants in San Francisco, in addition to the natural gas staff in Houston.

Mr. THOMAS. Except for two, then, what part are now engaged in this power survey?

Mr. BROWN. At the present time, I think we have an active force representing about 33 percent, one-third, of our staff, perhaps a little bit more during this current fiscal year, in activities related closely to the survey.

Mr. THOMAS. Thirty-five or forty in the field and eighteen in the District?

Mr. BROWN. Yes, sir.

COST OF THE NATIONAL POWER SURVEY

Mr. THOMAS. What was the overall request for funds for the national power survey?

Mr. BROWN. This is covered in two items, which are not entirely——

Mr. THOMAS. Mr. Budget Officer, can you refer to last year's justifications and give us that figure?

Mr. SWIDLER. I have some overall figures on the cost of the national power survey, sir.

Mr. THOMAS. I was thinking it was around $400,000 or $450,000, but I understand it was around $380,000 or $385,000.

Mr. CASHELL. That was the increase we asked for last year, $380.000.

Mr. THOMAS. When was it first submitted?

Mr. CASHELL. When did we first submit it?

Mr. THOMAS. Last year or the year before?

Mr. CASHELL. 1963.

Mr. THOMAS. What was the overall request, $400,000?

Mr. CASHELL. $380,000 was the increase. The overall amount was about $900,000.

Mr. THOMAS. I am talking about for the national power survey alone. Was it $900,000 or $400,000?

Mr. SWIDLER. May I give you the figures, sir?

Mr. THOMAS. Surely. Anybody.

Mr. SWIDLER. For fiscal 1962, the actual expenditures for the national power survey were $200,000.

Mr. THOMAS. What did you request, though?

Mr. SWIDLER. This was money that was available from the 1962 appropriation. We made no request for it. It was an activity which arose during the year.

Mr. THOMAS. I though it was a separate item.

Mr. SWIDLER. It was a separate item for 1963.

Mr. THOMAS. How much was it then?

Mr. SWIDLER. The additional amount, as you just heard, was $380,000, but the total that we are spending this year is $925,000. Next year we estimate the total that we will spend on the national power survey will be $360,000, and that the total cost of the national power survey will be $1,485,000.

Mr. THOMAS. In your original justifications, did you not set out a wrapup figure of $1 million? I have that in my mind. Can you put your finger on that in the justifications for year before last? Does anybody recall? I have in my mind $1 million as the entire wrapup figure.

Mr. SWIDLER. I do not recall that figure, sir.

Mr. THOMAS. Do you think you will finish it next year?

Mr. SWIDLER. Yes, sir; I think we will.

Mr. O'CONNOR. My memory is we indicated there would be a $600,000 cost for additional people put on the payroll for the entire period for the national power survey, plus whatever people presently on the payroll would be devoted to that.

Mr. THOMAS. So, the overall additional figure was $600,000.

Mr. O'CONNOR. To the best of my memory, that is what we gave you last year for the whole program.

VALUE OF NATIONAL POWER SURVEY

Mr. THOMAS. What will be the value of it when you get it completed?

Mr. SWIDLER. I think the national power survey has already paid for itself many times over, sir. It is hard to put a dollars and cents

value on a substantial improvement in the effectiveness of the No. 1 industry in the country. I think this expenditure is very small for the benefit the country has already obtained, and much smaller in relationship to what I think the country will get in the future.

Mr. THOMAS. Spell that out. Do you not have a lot of associations in the electric industry? I have one in mind, the Edison Electric Institute. Do you not have half a dozen big associations?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Why did they not do this on their own, for everybody concerned?

Mr. SWIDLER. The reason they did not do it is that we are doing essentially a governmental function which could not be carried on by a private enterprise.

Mr. THOMAS. It could not be done by a trade association which covers everybody in the industry or a large part of the industry?

Mr. SWIDLER. No, sir.

Mr. THOMAS. Why not?

Mr. SWIDLER. Because we have asked the industry to test itself by the standard of national interest. No trade association represents the entire industry. The Edison Electric Institute, which comes closest to it, represents a fraction, a very large fraction I believe, of the private industry, but that is only 80 percent of the country. And no trade association can really be effective in moving its members ahead. It is the agent of its members. To provide leadership, to set new goals, and particularly to coordinate among the various segments of the industry, is beyond the nature or the capability of the organization.

NATURE OF INFORMATION OBTAINED BY THE SURVEY

Mr. THOMAS. What are you acquiring or seeking or correlating here?

Mr. SWIDLER. The information runs the whole gamut of the facts that are required to look at the best way of meeting the country's powerloads in the decade beginning in 1970. You must look at your opportunities in hydroelectric, steam, nuclear, and you must look at them in the light of changing technology in each of these areas, a very rapidly advancing technology.

Mr. THOMAS. You are saying, then, that your employees go to the various localities of the country and are making a prognosis of the economic conditions of the localities 8 or 10 years from now, how many people will be there and how much current they will need by virtue of the increased population and increased industry. You are virtually adding up the economic capability of a thousand and one local communities. Do your people know more about the local conditions in X community than the power people that serve that community?

Mr. SWIDLER. Of course, the Federal Power Commission has always had as one of its responsibilities to attempt to forecast powerloads of the future, and I think ours have proven to be fairly reliable. They are rather the standard for the industry. Everybody is entitled to a guess, but I think the Federal Power Commission's guess has come to be recognized as what you might call the official guess. It does involve

combining the load growth data for all of the various areas of the country, but it is not entirely a matter of addition, because load growth is a function of national productivity. When you are forecasting more than 2 or 3 years ahead, you must have in mind, how big economically will this country be at any given time? What will be its total energy needs? What part of those needs will be met by electric power? This is a constantly increasing percentage. How will the loads be distributed? How can they best be met, looking at your resources as though they were available on a completely free technological basis? How can we make the best use of what we have, the best use of our coal and other fuels, the best use of our hydrosites, the best use of our technology?

This requires new groupings among power companies, groupings that do not now exist. This requires tying regions together by extra high voltage lines that are not now tied together and which might not be tied together were it not for the national power survey.

OBJECTIVES OF THE NATIONAL POWER SURVEY

Mr. THOMAS. Do you have authority to tell two companies, A and B, assuming they are both under your jurisdiction, how to operate their business with reference to the disposition of some excess power? "Lay this highline here for 100 or 150 miles. You are going to sell so much power over in this area." Do you have that jurisdiction?

Mr. SWIDLER. No, sir. We have the jurisdiction that Congress gave us in 202(a) of the Federal Power Act. You did give us some jurisdiction there. We are directed to encourage the interconnection and improvement of power systems on a voluntary basis, and that is what we are doing. This is authority that Congress gave the Commission in 1935, and we think that through the power survey we are giving that authority the most effective possible exercise. The industry is now in a state of great change and ferment. New interconnections and higher voltage interconnections are being announced almost weekly. New units of greater size——

Mr. THOMAS. Is that the result of your survey, or is that the result of old Yankee ingenuity and private enterprise working? All these people are not working for their health, but for profit, and if they can see a profit by extending the high line 150 miles and making a deal with this company over there, they will do it without your prodding, will they not? If they do not think they can make some money, regardless of your prodding they are not going to do it, are they?

Mr. SWIDLER. No, but there are various ways of making money, and I think we have opened up possibilities of making money in a way that is more consistent with the national interest than the way they made their money before.

Mr. THOMAS. What do you mean by that?

Mr. SWIDLER. What I mean is that this movement toward more effective use of fuel and equipment and technological resources has been greatly stimulated by the Federal Power Commission. This is not my opinion alone. This is the opinion of the industry. The industry is working with us very closely, and the leaders of the industry tell me that they think the national power survey has been a great contribution to the industry. We have over 100 industry leaders on

our various committees from all segments of the industry, Mr. Chairman, from the private segment in greater number because they are 80 percent of the industry.

Mr. THOMAS. Are you doing anything for the industry that the industry could not do for itself?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. What?

Mr. SWIDLER. We are bringing together the elements of the industry that could not meet without impartial Government sponsorship. There is no forum, there is no place for the Federals, the municipals, the cooperatives, and the private systems to get together except at the offices of the Federal Power Commission, Mr. Chairman.

Mr. THOMAS. You are getting them all on speaking terms.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Good. I thought maybe you were telling them how to run their business and make more money.

Mr. SWIDLER. No, sir.

Mr. THOMAS. You are spending about a million dollars geting them on speaking terms. It may be worth the money.

Go ahead.

FPC ACTIVITY IN THE NATURAL GAS FIELD

Mr. SWIDLER. Shall I go back to the natural gas industry and make a few more large claims in that field before going on with the power matters?

Mr. THOMAS. You can do or say anything you want to in here.

Mr. SWIDLER. I should like to stake out a claim, Mr. Chairman, for some of the credit for stabilizing natural gas prices in the field and at the city gate. The country faced a spiraling escalation in natural gas field prices. In the last year and a half, those prices have been stable in the field as a result of the interim price control of the Commission, and it has been stable or reduced at the city gate. I believe this has been a great contribution to the consumers and to the industry. I think now there is renewed confidence in the Commission. Consumers are no longer troubled, as they were a couple of years ago, by uncertainty as to where the price of gas would go if they committed themselves to new gas appliances. There is now a more solid foundation for the industry than existed some years ago.

The financial situation of the pipelines has improved to the extent that almost all of them, all but a few, now have solid financial statements. They know how much of the money in their treasuries belongs to them, which is to say all of it now, because the consumer's part of it has been repaid. This, I think, has been a great contribution.

Some of the pipeline companies feel that the settlements were severe. I do not say that they enjoyed them, but I do say that they have at least the compensation of security in their figures, in their financial statements.

We have gone a long way, Mr. Chairman, in improving our procedures. We have new regulations with respect to pipeline rate filings, which we are hopeful will enable us to dispose of new filings in the future expeditiously. I do not mean easily. It requires intensive work by the staff in order to meet a reasonable time schedule, but we hope to dispose of these cases in a year or less after filing, some

of them perhaps within the suspension period so it will not be necessary to have rates subject to refund.

We have set up a field office in Houston to help the producers, large and small, in preparing their paperwork and in establishing communication locally between the Commission and the producers.

We have also attempted to improve communication with the industry leaders and consumers by the establishment of the Natural Gas Advisory Council. We have had some meetings where I think we have had a chance to get the views and recommendations of the industry and consumer groups and they have proved helpful.

On pipeline certificate cases, Mr. Chairman, we approved $230 million of new construction in the last 3 months of 1962 as compared with $71 million for the comparable period of 1961. In the last 6 months of 1962, we approved $382 million in pipeline certificates.

Mr. THOMAS. The 15-mile extension of four lines runs into money, but as far as cases are concerned, you did not have too much of a workload, did you? When you lay a mile or 2 miles, it does not run into money, as it does when you have a transcontinental line.

Mr. SWIDLER. I think the figures suggest a considerable improvement over our performance in the past.

Mr. THOMAS. Gentlemen, let's get some lunch and come back at 1 o'clock.

AFTERNOON SESSION

Gentlemen, will the committee please come to order?

Mr. Chairman, did you have any further observations you wanted to make? If you do, we would be glad to listen to you. Otherwise, we will take a look at your budget. It is your pleasure, whatever you want.

NEWSPAPER ARTICLE ON COMMISSIONER MORGAN'S DECISION TO DECLINE REAPPOINTMENT

Mr. SHIPLEY. Mr. Chairman, Mr. Evins is ill today. He gave this short statement to Mr. Boland and asked that it be read into the record. It has a remark or two directed at the chairman. This would probably be the proper time.

Mr. THOMAS. Go ahead.

Mr. SHIPLEY. This is from Mr. Evins and reads as follows:

Mr. Chairman, over the years I have been impressed with the fact that the appropriation of money is not the most important item in order for a Commission or regulatory agency to effectively serve the public.

Our committee has appropriated large amounts to this Commission over the years but, notwithstanding this fact, we are constantly confronted with the question of a big backlog of cases and a slowdown in the regulatory process. Moreover, and more importantly, there seems to be some lessening of a sense of dedication to the public interest. No matter how much money an agency has, it must first be dedicated to the task of serving the public interest and, in the case of the Federal Power Commission, especially the consumer, before it can be a truly effective agency.

Budget increases, additional funds for special studies and funds to provide additional employees for "overworked bureaus" have been provided before, but I regret to say that there does not seem to be a corresponding dedication to serve the public interest.

From reports in the press, there seems to be a lack by some Commissioners, in the Federal Power Commission, of being consumer minded. I hope these press charges are not true.

We have all read with much interest the recently published letter of Federal Power Commissioner Howard Morgan to the President announcing that he is resigning and will not accept reappointment to the Commission. Commissioner Morgan pointed out in his letter to President Kennedy that the reason for his decision to decline reappointment is because of the lack of dedication to the public interest by his fellow Commissioners.

Mr. Chairman, this appears to be a great reflection upon this regulatory agency. What has happened at the Commission? All Americans are affected daily by the actions and decisions of the Federal Power Commission.

Why is not the average electric or gas consumer, who has no powerful lobby to represent him, better served by this regulatory agency?

I believe the issues presented by Commissioner Morgan's letter should be fully spelled out for the record.

In this connection the press has cited the El Paso Natural Gas Co. which has overcharged consumers by some $68 million and when the Commission was called upon to require a refund of this amount there was much hesitation and delay. It is reported that only after much discussion and debate was Commissioner Morgan able to persuade a majority of the Commission to vote with him and to provide this $68 million refund to the purchasing public that had been overcharged.

Why this delay in providing refunds of overcharges?

He would like to have your comment on that, Mr. Chairman.

Mr. MORGAN. I wonder if it would be appropriate for me to say something first, because I have been misquoted to some extent.

Mr. THOMAS. Commissioner, we are delighted to have you say whatever you desire.

Mr. MORGAN. I believe I have been extensively misquoted in the press. I made it very clear in my letter to the President that my remarks concerning the selection of personnel for the regulatory agencies were general in character and applied to all regulatory agencies. I made it specifically plain that those remarks were not intended to depict or describe any persons, including my colleagues and myself.

Mr. THOMAS. Those are your exact words that I read in the paper.

Mr. MORGAN. I do feel, and I have felt for a long time—and my studies and work, although not continuous, cover a period of 25 years in this field—that the selection of the Commissioners is the most crucial and critical area in securing good regulatory work. In my letter to the President I referred to people like Commissioner Eastman, Commissioner Aitchison, Commissioner Splawn, Commissioner Mahaffie of the old Interstate Commerce Commission as examples of what I meant.

I think this matter is at least as important as the administrative and organizational suggestions which people like Dean Landis and Judge Prettyman have made recently with respect to regulatory agencies. But I want to emphasize that it was only in a spirit of wanting to contribute a helpful suggestion with respect to all regulatory commissions that I wrote the letter to the President.

Mr. THOMAS. I thought your statement was very clear. That's the way I read it and the way I interpreted it.

Mr. SWIDLER. I have known Joe Evins, who is from my State, for a great many years. I respect his opinion and am sorry that he should have suffered this loss of confidence in me. I am not aware of any good reason for it.

Mr. O'CONNOR. Could I add one more thing, sir?

Mr. THOMAS. Yes.

Mr. O'CONNOR. I think the figures reported on the El Paso case would indicate a discrepancy within the Commission of as much as $30 million on that refund. Commissioner Woodward and I happened to be dissenting Commissioners, and at no time was the difference much more than $2 million, as I remember. It was a difference as to whether additional incentive should have been given for the producing properties of El Paso. Not additional incentive, but additional rate of return, and the difference in rates we discussed at the time amounted to closer to $2 million for El Paso than the figures cited.

With respect to the rest of that opinion, every other facet of the El Paso case as presented at that time was the unanimous view of all five of the Commissioners.

Mr. THOMAS. I think I speak my own thoughts and perhaps those of the members of the committee. We like the Commission and its staff. At no time do we think for one minute that any of you do anything except what your good conscience and good judgment dictates. I know of a lot of reasonable men who reasonably disagree without creating a revolution.

Mr. JONAS. Mr. Chairman.

Mr. THOMAS. Yes.

Mr. JONAS. May I comment on that? It will end in a question to Chairman Swidler.

Would it not be unusual in a rate case involving such substantial sums of money to have an immediate concurrence to the penny on the part of Commissioners who are supposed to have minds of their own and not operate in grooves? That is not to say that a final decision might not necessarily be unanimous, but would it not be normal to expect there would be differences of opinion in the consideration of such an important case? After all, there were a lot of people who thought that the rates under suspension were proper.

Mr. SWIDLER. The company has appealed, and the courts have yet to decide whether we did not go too far. I think we arrived at the right answer or I would not have agreed to it. You understand, Mr. Jonas, I do not want to discuss what went on within the Commission. I do not think that is appropriate. I do not want to open up the confidences of the meeting room. Mr. Morgan is here. I do not understand that he supports the accuracy of the report that was made. If he does not, there is nothing to rebut. But I think, in general, Mr. Jonas, of course you are right, that a lot of these cases are very difficult, there are many complex issues and many ways of looking at them. We sometimes start out from five different points of view before we get together, and sometimes we wind up and still have two or three different points of view.

Mr. JONAS. Even the Supreme Court sometimes hands down a divided opinion.

Mr. SWIDLER. Yes, sir; but with respect to this particular case, I think Mr. Evins accepted a newspaper report that is based upon disclosures or assumptions as to disclosures of what went on in Commission conference. I do not understand that anyone who was present at that Commission session supports the accuracy of that version. I do not think I need go further.

Mr. THOMAS. I do not think Mr. Evins was trying to be personal with anybody. He was trying to describe in a few short words what was said in the paper. I think it was merely thrown out for suggestion.

Mr. SWIDLER. I hope Mr. Evins will permit me an opportunity——

Mr. THOMAS. I am sure he will. Is there any further discussion? Are there any general topics the Commission or any members of the Commission want to discuss?

Mr. SWIDLER. Mr. Chairman, if your questions will give me an opportunity to make our case—of course, it is made in the written material, and perhaps that is enough—I think there is one program that is very important to the Commission, which I would like to emphasize. That is the program for electric rate regulation, which accounts for the bulk of the people that we are asking for on the power side.

Mr. THOMAS. Bulk of the increase?

Mr. SWIDLER. Yes.

Mr. THOMAS. We will go into that.

Mr. SWIDLER. Other than that, there is nothing that is not adequately covered.

SUMMARY AND HIGHLIGHT STATEMENT

Mr. THOMAS. We do not want to foreclose anybody now. If you think of anything else you want to say, that is what we are here for. Our friend over there is an artist and does a bangup job. This is very interesting and very readable. I want him on my side. We will put pages A–1 through A–12 in the record. I believe some of this is a duplication of our distinguished chairman's remarks, but it is so well stated it does not hurt to put it in this form.

(The material referred to follows:)

SUMMARY AND HIGHLIGHT STATEMENT

INTRODUCTION

The Commission is requesting $12,725,000 to carry on its programs during fiscal 1964. This includes $50,000 being requested by the Office of Emergency Planning for our emergency planning work, and is an increase of $1,699,000 over the fiscal 1963 total obligations of $11,026,000 (adjusted appropriation of $10,626,000 and a $400,000 proposed supplemental to provide for the salary increases resulting from Public Law 87–793, approved October 11, 1962). These funds for fiscal 1964 will provide an additional 121 positions over fiscal 1963, an increase from 1,178 to 1,299 positions.

Of the 121 new positions, 75 are required for the regulation of the rapidly expanding natural gas industry to enable the Commission to accelerate and complete programs which it has already begun for clearing up its backlog of natural gas rate and certificate cases. The increased staff is required primarily for natural gas producer regulation to enable the Commission at long last to handle promptly new applications for service and rate changes, and to lay a foundation for area rate regulation in each of the gas production areas.

The other 46 positions are for our electric power work, primarily to enable the Commission to carry out its responsibilities for the regulation of wholesale rates and service in interstate commerce. Effective regulation of interstate transactions in the electric power field is vital if the consumers of electricity are to receive the benefits of the savings resulting from the interconnections across State lines and pooling arrangements covering large areas of the country which the Commission is encouraging in its national power survey.

Details are shown in the table entitled "Statement of Positions and Activity Costs," which follows this statement. The justification by activities starts with section B.

NATURAL GAS INDUSTRY

The Commission requests $7,106,000 for its natural gas work, an increase of $1,023,000 over 1963, providing for an increase of 75 positions over 1963, from 675 to 750 positions. The steady growth of the industry and the resulting increase in the workload of the Commission, and the steps taken by the Commission in the past year to improve the quality of its services, demonstrate that it will use the funds requested prudently and effectively in the public interest.

The natural gas industry is characterized by a rapid rate of growth as it expands to supply an increasing portion of the Nation's increasing need for energy. The change in the Nation's fuel economy brought about by the increasing penetration of the energy market by natural gas has been little short of revolutionary. The percent of the Nation's total energy usage supplied by natural gas increased from 19.8 percent in 1950 to 33.2 percent in 1961, a two-thirds increase. Thus today natural gas supplies over a third of all the energy used in this country, including the energy used by automobiles and other mobile equipment as well as in the home and in industry. In view of the rapidly increasing importance of natural gas to consumers and to the Nation's economy, it is essential that the Commission have an adequate and competent staff to reduce existing certificate and rate case backlogs to a normal working level, to process applications for certificates for new projects rapidly and to complete rate cases with a minimum of delay.

The Commission has done much in the past year to clean up the backlog of cases the present members of the Commission inherited, to improve the efficiency of our existing staff, and to improve internal procedures to obtain maximum effectiveness from the people we are hiring.

The Commission's major accomplishment in the past year has been the disposal of the greater part of the billion-dollar backlog of pipeline rate cases pending before the Commission at the beginning of fiscal 1962. We have encouraged the use of the conference procedure to secure settlements agreeable to the Commission staff and the parties concerned which are in the public interest, with the result that refunds of $350 million were ordered and new, lower rates were put into effect at once. Many settlements include moratoriums on future rate increases for stipulated periods in the future.

The Commission has reorganized the Bureau of Natural Gas into a pipeline and a producer division to strengthen controls, pinpoint responsibility, and expedite the processing of cases, and has similarly reorganized the Office of the General Counsel to complement the changes made in the Bureau of Natural Gas.

A new field office was established in Houston, Tex., to strengthen supervision over our personnel in the area and to serve as a clearinghouse for problems of the small independent producers in Southwestern United States.

New regulations have been adopted which require a pipeline company to submit a full presentation of its case and all supporting data verified by an independent certified public accountant at the time a rate increase is filed, thus avoiding lengthy delays heretofore experienced for field investigation of the company's books in connection with each rate case. Effectiveness of the new procedure assumes adequate staffing. If adequate staff is made available, we shall periodically check the books of pipeline companies to assure compliance with the uniform system of accounts, eliminating the need for extended field investigations as a part of rate cases. Without such compliance the new system will fail of its purpose. With adequate staff our new procedure will enable us to complete pipeline rate cases in a fraction of the time it has taken in the past.

In this connection, we have also made more extensive use of prehearing conferences to clarify and, where possible, to eliminate immaterial or peripheral issues, thus simplifying and materially expediting formal hearings.

We have outlawed the so-called favored-nation and other indefinite escalation clauses in producer contracts filed after April 1, 1962, and restricted, and will ultimately eliminate, this type of producer rate increase filing which, in a large measure, has been responsible for runaway increases in producer prices in the past.

We have established the Natural Gas Advisory Council, made up of industry and consumer groups, to advise the Commission on current problems.

We have also made significant progress in the area of our greatest backlog—gas producer rate and certificate cases. We have developed a program for regu-

lating the rates of the gas producers on an area basis rather than by an individual proceeding for each producer. Thus we expect to clear up our backlog of thousands of individual producer rate cases by holding a relatively few hearings, one for each of the producing areas of the country. Unfortunately we do not have sufficient staff to hold hearings in each of the areas simultaneously. However, we are forging ahead with the area rate program, and the hearing in the lead case involving the Permian Basin of Texas and New Mexico, covering over 400 producers, is well underway and should be completed in 1963. Work in preparation for a hearing in the area proceeding for southern Louisiana is well along but progress in this proceeding and the initiation of a national proceeding to expedite the hearings for other producing areas is being delayed by lack of staff.

We have increased the use of electronic data processing within the limits of our present appropriations to enable us to tabulate and analyze the huge amount of data on the cost of finding and producing gas, gas reserves, and gas deliverability, which are vital in our area rate proceedings. Regulating producer rates on an area basis involves such enormous masses of data that it would not be feasible without the modern data processing equipment which we have been using. Our 1964 appropriation request includes funds for the use of machines to the maximum extent economically feasible.

With respect to producer certificate cases we have recently established guidelines which limit the type of evidence necessary to determine the initial price, which is the primary issue in most of these cases. Hearings on the thousands of pending cases can now be expedited and we have made progress in reducing the producer certificate backlog. However our progress in disposing of these cases, many of which are already several years old, is still limited by lack of manpower.

It is obvious that despite our best efforts, we cannot expect to eliminate our backlog of producer rate and certificate cases and keep current with the ever-increasing number of cases generated by the growing natural gas industry without additional staff. We believe the industry and its consumers are entitled to a speedy disposition of cases of all types. The 75 additional people we are requesting who will be assigned to producer matters are urgently needed to enable us to keep up with our work.

ELECTRIC POWER INDUSTRY

The sum of $2,191,000 is requested for the Commission's electric power work, an increase of $466,000 over 1963. This will provide for 38 additional positions, 30 of which are for the regulation of electric rates, 5 for enforcement of the Commission's uniform system of accounts and 3 for interconnection and coordination studies.

In the past year the Commission has made an intensive study of its responsibilities under the Federal Power Act and found that electric rate regulation —the central consumer protection activity of the act—had in recent years for all practical purposes ceased to be an effective function of the Federal Power Commission. The four-man rate staff which was found submerged in the natural gas organization when the present members of the Commission took office in 1961 was transferred to the Bureau of Power and given the prominent place it deserves in that organization. The situation had so deteriorated that many of the interstate electric power companies subject to FPC jurisdiction did not even have their wholesale rates on file with us. Federal rate regulation in the electric power field had all but lapsed. These rates are now being filed but our small staff is hardly adequate for routine processing of the filings, much less to investigate the rates sufficiently to determine whether they are just and reasonable. The Commission is determined to make rate regulation under the Federal Power Act effective, but we urgently need more staff in order to do so.

The need for effective wholesale electric rate regulation is growing acute as more and more power systems interconnect with their neighbors and the wholesale interstate transactions become a larger and larger part of the total. The trend toward power pooling has developed into a headlong rush as almost every electric power system in the country seizes the opportunities to reduce the cost of generating electricity by taking advantage of the savings of utilizing larger generating units, reducing reserves, and taking advantage of system diversities, all inherent in interconnections and coordinated operations.

The interest which the electric power companies are commendably showing in looking beyond their State lines for the most economical means of meeting the growing power demands of the country has been stimulated by the Commission's national power survey which is now in progress. It would indeed be

an anomaly if the Commission did not follow through with an effective job of wholesale rate regulation to make sure that power from these interestate systems is made available to wholesale customers at reasonable rates and with an assurance of continued supply. The electric power industry is rapidly developing into a single interconnected grid, at least from the Rocky Mountains to the east coast and from Maine to Florida. Regulation of the wholesale sales from such a system is obviously a Federal responsibility and this Commission urgently needs additional staff to carry out this important consumer protection activity.

A small increase in staff is also needed to expand our program of field audits to assure compliance with the uniform system of accounts. Such audits will materially simplify and expedite the investigations related to electric company rate cases.

The Commission's national power survey is moving full speed ahead, and we are hopeful that virtually all of the engineering and economic studies will be completed during fiscal year 1963. FPC and industry advisers are working together to make the report of this most exhaustive survey in the Nation's history an historic contribution to the shaping of a more efficient power supply for the Nation, with the promise of lower rates for consumers. Completion of the report is expected during fiscal year 1964.

While the report on the survey in itself will prove an invaluable guide to the industry, much of its value will be lost if there is no followup on its recommendations. The 1963 staff level will need to be maintained in order to monitor and encourage the adoption of the national survey recommendations, and to adapt the recommendations to the rapid growth and change in the industry. A very small additional staff will be needed in 1964 for work on regional and local interconnection studies to extend the benefits of the national survey.

The Commission has an important responsibility for collecting and disseminating statistical data on the electric power industry which is of genuine value to the public and the industry, as well as to the Commission itself. We need to revise and expand our statistics to focus on the problems of today and use the valuable and inexpensive tool of public information to stimulate better industry performance. A task force of the Commission staff has been organized to spearhead the strengthening of this program. Significant progress towards improving this function is anticipated in 1963 and 1964.

NONFEDERAL HYDROELECTRIC PROJECTS

The Commission requests $2,061,000 for this activity, an increase of $166,000 over 1963. This will provide for eight additional positions for the investigation of non-Federal hydroelectric projects and the processing of license applications.

The Commission in the past year has attempted to accelerate the pace of license applications pending before us and push them to conclusion so that when non-Federal development of projects is in the public interest the projects can be built and thus stimulate general economic growth as well as add additional capacity to meet the growing demand for electric power.

The Commission is continuing its investigation of projects which are operating without a license under the Federal Power Act. The Commission in the past year has established new guidelines for granting licenses for these projects and is making a determined effort to bring them under our licensing authority. Many applications have been filed, and more are in process of being readied for filing. The anomalous situation of the past, in which hundreds of projects operated without the license required by law is now being gradually eliminated. Additional staff will be required to process the increase in filings. This activity is self-supporting since license fees will cover the licensing service.

The Commission is making progress in its program for determining annual payments to be made to the United States by owners of non-Federal power projects which are benefited by headwater improvements constructed by the United States. A proposed rule has been issued which, if adopted, will provide, for the first time, formulae which will enable us to send out annual bills for headwater benefits and will thus bring into the Federal Treasury substantial sums on a regular basis.

Receipts from license fees alone will amount to $2,190,000 in 1964. It is also estimated that payments to the Federal Government, to be determined by the Federal Power Commission, for benefits derived by non-Federal projects from Federal water resources projects will amount to $1,750,000 in 1963 and $4 million in 1964. Details are given later in this section.

FEDERAL RIVER DEVELOPMENT PROJECTS

The amount requested for this activity is $504,000 and provides for no increase in staff. The amount is $16,000 over that provided for 1963 because of the salary increase.

The number of projects under review by the Corps of Engineers and the Bureau of Reclamation for which the Federal Power Commission must furnish recommendations with respect to power facilities is expected to increase. We expect that with increased efficiency of our present staff that the Commission will keep pace in this coordinated effort to develop sound and well-conceived plans for the multiple-purpose improvement of the Nation's river basins.

ADMINISTRATION

The personnel requirements for administration remain stable at 86 positions, despite the expansion in activities proposed for 1964. The amount requested for this activity is $28,000 over the amount provided for 1963 as a result of the salary increase.

GAS ACTIVITIES

Mr. THOMAS. You say this on page A–4:

The Commission has reorganized the Bureau of Natural Gas into a pipeline and a producer division to strengthen controls, pinpoint responsibility, and expedite the processing of cases, and has similarly reorganized the Office of the General Counsel to complement the changes made in the Bureau of Natural Gas.

Did the judge agree with us this morning that maybe if we let the brothers handle two or three different types of cases, we would eliminate the increase of 13? Did you make that statement, Judge?

Mr. SOLOMON. No, sir.

Mr. THOMAS. You say this at the top of page A–4:

We have encouraged the use of the conference procedure to secure settlements agreeable to the Commission staff and the parties concerned which are in the public interest, with the result that refunds of $350 million were ordered and new, lower rates were put into effect at once. Many settlements include moratoriums on future rate increases for stipulated periods in the future.

That is all good. I notice this language in the middle of page 5:

We have outlawed the so-called favorite-nation and other indefinite escalation clauses in producer contracts filed after April 1, 1962, and restricted, and will ultimately eliminate, this type of producer rate increase filing which, in a large measure, has been responsible for runaway increases in producer prices in the past.

You can get a lot of argument on the factual accuracy of that statement, can you not, on runaway prices?

Mr. SWIDLER. Yes, sir. I do not claim that this is the universal view of the industry.

Mr. THOMAS. If you put it on a B.t.u. basis, they will show you it is about the cheapest fuel on the market at prevailing prices.

Mr. SWIDLER. Yes, sir; it is, on a B.t.u. basis.

Mr. THOMAS. That is what counts in the long run, is it not, what produces the most heat plus handling costs, and so forth?

AREA RATES

You also say on page 5:

We have also made significant progress in the area of our greatest backlog—gas producer rate and certificate cases.

I have a note here. Your predecessor started the area idea; is that right?

Mr. SWIDLER. Yes, sir; the concept of having uniform rates within producer areas was enunciated by the Commission before any of us who are here now were on it. But nothing much was done with the concept. I think all that we can claim for ourselves is having taken the ball and run with it, I hope a considerable way toward the goal-post. We have also, I think, given a little different direction to the concept. I think the original concept was very much along the lines that the area rate would be the so-called field price, which is whatever price was charged in current contracts.

Our own conception is that the area rate will be a regulated rate, and we have introduced a vast amount of cost and economic evidence in the proceedings.

Mr. THOMAS. I think your predecessors had the same idea, did they not?

Mr. SWIDLER. I think they were perhaps moving in that direction. In the original announcement of the area rate proceedings they listed the various kinds of information which would be taken into account in fixing area prices.

One of the steps taken by the Commission when Mr. Morgan and I first came on it, at one of our early meetings, was to approve a cost questionnaire which the staff had prepared before we got there. This must have meant some change in the direction of the Commission's thinking. But they had not made any announcement of the relationship between the cost data called for by the questionnaire and area rates. I think this Commission has indicated clearly that costs are one of the important foundations for area rates.

Mr. THOMAS. I think you are going to need that IBM machine when you go into it. I have in mind, in my old east Texas county where I was born and reared, one of the companies that went in there and decided to do some extra digging. They just went 14,000 feet. I expect that exploratory well cost them a half million dollars or three-quarters of a million dollars. Would you say that is about right?

Mr. O'CONNOR. A half million dollars anyway.

Mr. THOMAS. Tom, Dick, and Harry cannot do that. It did not cost anything like what they spent to get it, but they thought that perhaps they had made an error. They moved over a couple hundred yards and started another one, where they intend to go down another 14,000 feet.

Suppose they did not make an error in the first well and it does not produce any more than the first one produced, which was practically nil. How far are you going to figure out $1.5 million on the cost of that locality when it got virtually nothing?

Here is what you say on your area yardstick:

> Unfortunately, we do not have sufficient staff to hold hearings in each of the areas simultaneously. However, we are forging ahead with the area rate program, and the hearing in the lead case involving the Permian Basin of Texas and New Mexico, covering over 400 producers, is well underway and should be completed in 1963.

I have a longhand note—how long has this been going on? As well as I remember, your investigation now is about 18 months.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. If you had enough people to cover four or five rate areas at one time, then your people more than likely would be idle for a large part of the time.

Mr. SWIDLER. Of course, Mr. Chairman, not all of the areas would need a separate proceeding. Some could be consolidated. It may be that some of the issues in future proceedings can be heard on a national basis. Some of the economic testimony, for example, would be the same in each of the various areas.

Making allowance for the fact that once we learned the ropes and once we established the guidelines, that these proceedings will move faster, that we will take advantage of opportunities for consolidation, we envisage this program as possibly winding up with the establishment of initial area ceilings within, say 2 years after the Permian case is decided which, to use a guesstimate, would be, say, June 30, 1964.

Once area rates are established in each area, they must, of course, be kept current in order to reflect changes in needs of the companies and the changes in their costs, changes in other conditions upon which the rates would be predicated.

I hope the committee will keep in mind that this is not an expansion of a going activity, at least, as of the period when this new Commission came in. This is work that was just not being done. The Commission was required to regulate producer rates, but nothing had been done on it except to pile up backlogs. We are just starting to establish a system of regulation which will discharge our responsibilities under the Natural Gas Act as interpreted in the *Phillips* case by the Supreme Court.

ELECTRIC POWER ACTIVITIES

Mr. THOMAS. I note this in the middle of page 7:

> Two million one hundred and ninety-one thousand dollars is requested for the Commission's electric power work, an increase of $466,000 over 1963. This will provide for 38 additional positions, 30 of which are for the regulation of electric rates, 5 for enforcement of the Commission's uniform system of accounts and 3 for interconnection and coordination studies.

That is well worded. Reading from the top of page 9:

> The electric power industry is rapidly developing into a single interconnected grid, at least from the Rocky Mountains to the east coast and from Maine to Florida.

In other words, the Pacific coast is a separate entity from Seattle to San Diego?

Mr. SWIDLER. There are no strong interconnections between the systems east and west of the Rockies, but I think the committee may be interested to know that practically all the large systems east of the Rockies now operate in parallel. They are all tied together, and they all are on the same frequency. Clocks in this great half of our country are all regulated by one system now.

Mr. THOMAS. I note your language here:

> The Commission's national power survey is moving full speed ahead, and we are hopeful that virtually all of the engineering and economic studies will be completed during fiscal year 1963. FPC and industry advisers are working together to make the report of this most exhaustive survey in the Nation's history a historic contribution to the shaping of a more efficient power supply for the Nation, with the promise of lower rates for consumers. Completion of the report is expected during fiscal year 1964.

More horsepower to you. If you can pull a Houdini and get the rates down by studying, more horsepower to you.

On non-Federal hydroelectric projects you say that the Commission requests $2,061,000. We will go into that. It is an increase of $166,000, providing for eight additional positions for the investigation of non-Federal hydroelectric projects.

You have Federal river development projects, administration, other activities on page 12. I notice this language:

> An intensive study of whether our gas reserve and deliverability requirements for pipelines are flexible enough to meet the needs of the industry is under study but manpower restrictions are retarding progress. The natural gas statistics program of the Commission must be expanded to meet Commission and industry needs.

That is not too impressive, is it?

We note you have a proposed supplemental, due to pay increase, of $400,000 coming over.

OBLIGATIONS AND EXPENDITURES

Put page A–17 in the record.

(The page referred to follows:)

FEDERAL POWER COMMISSION

Estimated obligational authority related to obligations and expenditures

	Fiscal year 1963	Fiscal year 1964
Current appropriations:		
Appropriated	$10,700,000	----------
Proposed supplemental due to pay increases	400,000	----------
Less transfer to GSA	−74,000	----------
Recommended appropriation	----------	$12,675,000
Reimbursement for emergency preparedness function	----------	50,000
New obligational authority	11,026,000	12,725,000
Permanent appropriations	68,000	67,000
Less reimbursement for emergency preparedness functions	----------	−50,000
Total obligations to be incurred	11,094,000	12,742,000
Obligations outstanding at start of year	743,000	828,000
Obligations to be accounted for	11,837,000	13,570,000
Less obligations outstanding at end of year	828,000	920,000
Gross expenditures in year	11,009,000	12,650,000

COST OF PAY INCREASE

Mr. THOMAS. What will the pay increase cost you in fiscal year 1964 and what figure have you set up in the 1964 budget for the pay increase?

Mr. SWIDLER. $794,000.

Mr. THOMAS. Are you sure?

Mr. CASHELL. $794,000.

Mr. THOMAS. Pay increase for 1964?

Mr. O'CONNOR. That is the total of the two steps.

Mr. THOMAS. The second step is carried in your 1964 budget. You have to pay for that, too; correct?

Mr. SWIDLER. In the middle of the year the second increase goes into effect.

Mr. THOMAS. Whatever it is, it is carried in your 1964 budget for 6 months.

Mr. SWIDLER. Whatever it is, it is in there.

Mr. THOMAS. It went into effect in October of last year?
Mr. CASHELL. October 13.
Mr. JONAS. Will the chairman yield?
Mr. THOMAS. Yes.

1963 COSTS NOT ABSORBED

Mr. JONAS. I do not find that you absorbed any of that first step.
Mr. SWIDLER. No, sir. We are asking for $400,000.
Mr. JONAS. Did not the President direct that you absorb it?
Mr. SWIDLER. The President directed that we review our budget and expenditure proposals, and he determined that, in view of our need to add people to catch up with our work, we should not be required to absorb it.

TOTAL VACANCIES

Mr. JONAS. You filled all vacancies that occurred?
Mr. SWIDLER. No, sir, we have not yet. We have a recruiting program under way.
Mr. THOMAS. They were given 1,178 people for 1963. How many vacancies did you have on January 1?
Mr. SWIDLER. We must have had about 175 vacancies.
Mr. TRAINOR. Mr. Chairman, our recruiting schedule provides that we place these new positions on during the year. That is the way the money was given to us.
Mr. THOMAS. No, it was not. We want it on an annual basis. We questioned that innumerable times. Was that a firm answer as to the number of vacancies you had on January 1? You say 175?
Mr. TRAINOR. We had approximately 150.
Mr. THOMAS. We do not want an approximate figure. You either had it or you did not. What do your records disclose?
Mr. TRAINOR. As of January 1?
Mr. THOMAS. Whatever recent date you have.
Mr. JONAS. Whatever recent period you have your figures complete for.
Mr. TRAINOR. As of January 1, it was 154.
Mr. JONAS. Have you had any add ons since?
Mr. TRAINOR. Yes, sir, we have had approximately 50 this month of January. We also have made commitments and have reporting dates for 40 more.
Mr. JONAS. You still have a hundred vacancies?
Mr. SWIDLER. Yes, sir. Mr. Jonas, you may remember that in fiscal 1962 we came in and asked for a supplemental so that we could make a head start in our recruitment program, but that supplemental got lost in the shuffle. This appropriation did not become available until October, so that instead of starting, as we had hoped, last April 1, or May 1, we did not start to put on people until some time in October. It was the purpose of the supplemental to give us this running start, but instead of a running start we had what you might call a halting start.
This accounts for the fact there are so many vacancies.
Mr. THOMAS. That is not too persuasive, my distinguished friend. I pointed out that you mentioned 17 or 18 times the lack of staff. I quit counting at that. It checks up now, that after 4 months you still have 100 or 150 vacancies. If your work is so important and you are

crying for more people, why have you not put them on? You have had the money.

Mr. SWIDLER. Our recruitment is a problem in these technical positions, getting good people is not the work of a day.

Mr. JONAS. I would like to add that your predecessor, as Chairman of this Commission, told the committee that money was not his sole problem, that it was difficult indeed to recruit the kind of people that you need.

Mr. SWIDLER. That is very true, sir. You cannot recruit them without money, and even with money, it is a real job to get able people.

COMPARISON OF 1963 AND 1964 BUDGETS

Mr. THOMAS. We will put page A–19 in the record.

(The page follows:)

ITEMIZATION OF APPROPRIATION REQUEST

Salaries and expenses, Federal Power Commission

Standard classification	Estimate, 1963	Estimate, 1964	Increase (+) or decrease (−)
ANALYSIS BY OBJECT			
11 Personnel compensation	$9,070,000	$10,395,000	+$1,325,000
12 Personnel benefits	688,400	787,200	+98,800
21 Travel and transportation of persons	520,000	520,000	
22 Transportation of things	28,700	15,000	−13,700
23 Rent, communications, and utilities	217,000	359,600	+142,600
24 Printing and reproduction	117,700	129,000	+11,300
25 Other services	165,000	284,700	+119,700
26 Supplies and materials	97,000	115,600	+18,600
31 Equipment	122,200	118,900	−3,300
Total obligations	11,026,000	12,725,000	+1,699,000
ANALYSIS BY ACTIVITIES			
1. Natural gas industry	6,083,000	7,106,000	+1,023,000
2. Electric power industry	1,725,000	2,191,000	+466,000
3. Non-Federal hydroelectric projects	1,895,000	2,061,000	+166,000
4. Federal river development projects	488,000	504,000	+16,000
5. Administration	835,000	863,000	+28,000
Total	11,026,000	12,725,000	+1,699,000

Mr. THOMAS. Mr. Jonas, we will be working this over later. There are four or five items that need attention. No. 24 is "Printing and reproduction," 25 is "Other services," 26 is "Supplies and materials." They are all showing a sizable increase to the tune of $1,690,000. This is an adjusted figure after a transfer to GSA and your pay supplemental.

Mr. JONAS. Why should your "Rents and utilities" go up?

Mr. THOMAS. Let us put it in the record and look at it later, if you do not mind.

COLLECTIONS

This is all very interesting. Do not let it go unnoticed that the Commission has collected a lot of money in fees this year. Put the tables into the record on pages A–20, A–21, and A–22.

(The tables referred to follow:)

FEDERAL POWER COMMISSION

Collections—General accounts

[In thousands]

Receipt symbol	Receipt title	Actual, 1962	Estimate, 1963	Estimate, 1964
260899	Miscellaneous fees for permits and licenses, not otherwise classified	$1,338	$1,585	$1,636
261040	Fines, penalties and forfeitures, customs, commerce, and antitrust laws	1	1	1
262250	Sale of publications and reproductions	37	39	40
262461	License benefit charges	168	1,750	4,000
262490	Fees and other charges for miscellaneous services	1	1	1
262889	Repayments on miscellaneous recoverable costs, not otherwise classified	6,493	35	35
	Total general receipts	8,038	3,411	5,713

Collections—Special accounts

[In thousands]

Receipt symbol	Receipt title	Actual, 1962	Estimate, 1963	Estimate 1964
265105	Licenses under Federal Power Act from public lands and national forests, payments to States (37½ percent): 0899, Miscellaneous fees for permits and licenses, not otherwise classified	$58	$68	$67
145000	Receipts, reclamation funds, special fund collections, other agencies	78	91	89
265125	Licenses under Federal Power Act, improvements of navigable waters, maintenance and operation of dams, etc	154	154	154
145882	Oregon and California land-grant fund: 0899, Miscellaneous fees for permits and licenses, not otherwise classified	1	1	1
	Total special receipts	291	314	311

Collections—Trust accounts

[In thousands]

Receipt title	Actual, 1962	Estimate, 1963	Estimate, 1964
Licenses under Federal Power Act from Indian reservations (various Indian tribes)	$688	$243	$243

Mr. THOMAS. Miscellaneous fees for permits and licenses, not otherwise classified, this year is $1,585,000.

Sale of publications, $39,000. What did it cost you to print them?

Mr. SWIDLER. I assume at least that much. This is not a profit-making activity.

Mr. THOMAS. License benefit charges, $1,750,000.

Mr. SWIDLER. This is a matter I might say a word on, Mr. Chairman. As you know, last year I told you that I was not proud of the Commission's record in having collected, in its entire history, only approximately the amount of the administrative cost to make the collection. I promised you we would institute new procedures to put the headwater benefits payment on a businesslike basis. This year there

is a considerable improvement. We will bring in $1,750,000. Next year we are estimating $4 million. This $1,750,000 is three times the amount of money taken in in the whole course of the Commission's history before.

We are proceeding in two or three ways to try to put this activity now on a businesslike basis.

HEADWATER BENEFITS

Mr. OSTERTAG. What is a headwater benefit? Will you explain that?

Mr. SWIDLER. Yes, sir. The statutes provide that——

Mr. THOMAS. Benefit of somebody else's expenditure.

Mr. SWIDLER. That is right. The downstream owner of a hydro project is liable to the upstream owner, either the United States or a private licensee, for a share of the benefits which he receives from the regulation of the water by the upstream project. The statutes do not provide that the Federal Government pay for headwater benefits that it receives, but the payments are owing either to the United States or by the lower licensee to the licensee of the upper structure.

In the past what the Commission has done is to take these projects one by one and year by year and try to determine how the water would have flowed were there no upstream projects, how much would have been available above, how much below, what parts of the year or hours of the day the water would have been released, how much was the value of the additional power, and so forth. It has been an endless and controversial determination where the wheels spun without moving ahead.

We are doing two things now, primarily. In the first place, in new licenses we are inserting a formula so that when a person gets a license, he has a contract commitment to pay his fees beginning the first year on an agreed basis.

Mr. THOMAS. How are you collecting on those old cases? You will have authority soon to take them over. What is the period of limitation, 40 years?

Mr. SWIDLER. Fifty years is the recapture period.

Mr. THOMAS. What are you going to do with those 45 years of age? We will put the table on A–23 in there.

(Page A–23 follows:)

Explanation of collections under the Federal Power Act and from other sources

Item	Actual, 1962	Estimate, 1963	Estimate, 1964
Annual fees for licensed projects	$2,317,000	$2,142,000	$2,190,000
Headwater benefits	168,000	1,750,000	4,000,000
Sale of publications and reproductions and miscellaneous services	39,000	41,000	42,000
Repayment to the United States from the Niagara project	6,493,000	35,000	35,000
Total	9,017,000	3,968,000	6,267,000

Section 10(e) of the Federal Power Act provides that licensees shall pay to the United States reasonable annual charges in an amount to be fixed by the Commission to reimburse the United States for the costs of administration of part I of the act and to recompense it for the use, occupancy, and enjoyment of its lands and other property.

The total collections under section 10(e) of the Federal Power Act during the fiscal year 1962 were $2,317,952.60. These collections are anticipated to be $2,142,000 in 1963 and $2,190,000 in 1964. Of the total collected in 1962, $1,164,779.57 was for the purpose of reimbursing the United States for the costs of administering part I of the Federal Power Act and was credited to "Miscellaneous receipts." (Amounts for this purpose are estimated at $1,389,000 in 1963 and $1,460,000 in 1964.)

Mr. THOMAS. Headwater benefits rose from $168,000 in 1962 to $1.7 million in 1963, and he has a good, round, fat figure of $4 million for 1964. Congratulations.

Mr. SWIDLER. Thank you. May I add this one word of explanation? The second thing we are doing is having a uniform rule that we are promulgating, which will provide a formula on which existing projects can make payments.

Mr. THOMAS. Does the statute of limitations run against the Federal Power Commission?

Mr. SWIDLER. No, sir.

Mr. OSTERTAG. May I inquire about collections on A–20 and the relationship between the two figures. You have an explanation of collections under the Federal Power Act and from other sources on A–23, including annual fees for licensed projects, et cetera. What is the difference? Is the table or listing of collections on A–20 associated with this other?

Mr. SWIDLER. I do not believe that this trust account is included in the totals on page A–20.

Mr. THOMAS. We should have a breakdown of who is paid what. How many items are involved here?

Mr. OSTERTAG. Their figures do not jibe. There is no way of telling what part of your general collections on A–20—that is general receipts. Then on A–21 you have special receipts. Then you have your collections, trust accounts, on A–22. Then you have a total summary here, or at least an explanation of collections, FPA, from "Other sources." I think there must be some connection but it is not clear.

Mr. SWIDLER. I don't think this is presented as well as it could be. If you will permit we shall make part of the record a new table which will try to organize these figures a little more understandably.

(The information supplied follows:)

Explanation of Federal Power Commission collections in 1962—General, special, and trust accounts

1. SOURCE OF FUNDS

Annual fees from licensees:	
Cost of administering pt. I of the Federal Power Act	$1,164,780
Collections for use of Federal lands	155,876
Collections for maintenance of navigation	307,455
Collection for use of Indian lands	687,674
Penalties and other	2,168
Subtotal, annual fees from licensees	2,317,953
Headwater benefit payments	168,221
Sale of publications and miscellaneous services	38,247
Repayment to the United States for cost of remedial works at Niagara River	6,492,789
Total collections	9,017,210

2. APPLICATION OF FUNDS

Credited to "Miscellaneous receipts," U.S. Treasury:	
Cost of administering pt. I of the Federal Power Act	$1,164,780
Portion of collection from projects on Federal lands	19,485
Portion of collection for maintenance of navigation	153,727
Penalties and other	2,168
Headwater benefit payments	168,221
Sale of publications and miscellaneous services	38,247
Repayment to the United States for cost of remedial works at Niagara River	6,492,789
Subtotal, miscellaneous receipts	8,039,417
Payment to various States (37½ percent of collections from projects on Federal lands)	58,453
Payment to reclamation fund from collections from projects on Federal lands	77,938
Special fund for Department of the Army to maintain navigation	153,728
Collection for the use of Indian lands	687,674
Total payments	9,017,210

HYDROELECTIC PROJECTS

Mr. THOMAS. What is the average fee for a license project and what is the average amount for headwater benefits? What is the total number of companies involved?

Mr. SWIDLER. There are 49 river basins. We have made a start in only a few so far. We are planning now on the basis of the simplified procedure to make a start in fiscal 1964 on determining headwater benefits in every basin.

Mr. THOMAS. How many installations are there under your jurisdiction for power purposes?

Mr. SWIDLER. My recollection is that there are about 300 major hydro projects.

Mr. THOMAS. I do not think it is set out in the justifications.

Mr. SWIDLER. That is right.

Mr. THOMAS. The total is 300. The major ones number considerably less than that. Can you break it down between the total and major and minor, and also give us an indication of the breaking point?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Do you have a map showing this?

Mr. SWIDLER. There is a table showing that, table No. 1 in our annual report, which lists all the projects under major license. It runs almost six pages.

Mr. THOMAS. We have it in the justification. We shall get to it in a moment. That never has been put in hearings and it might be well to put it in.

On page D–14, number of river basins 49. Headwater reservoirs, 128 Federal, 57 licensed, total 185. Projects benefited, Federal 40, 282 non-Federal, total of 322.

In the 49 river basins, total number of installations is 322, and out of that there must be less than 75 major projects. Insert your table of projects at this point in the record.

(The table referred to follows:)

TABLE No. 1.—*Projects under major license, June 30, 1962*[1]

Project No.	Licensee	Stream	Installation (horsepower)	
			Present	Ultimate
	Alabama:			
82	*Alabama Power Co.	Coosa River	101,000	101,000
349	*†....do	Tallapoosa River	213,000	213,000
485	†Georgia Power Co.	Chattahoochee River	94,500	94,500
618	*†Alabama Power Co.	Coosa River	144,000	180,000
2102	†Warrior River Electric Coop.	Locust Fork of Black Warrior River.	----------	190,600
2146	*†Alabama Power Co.	Coosa River	189,000	695,100
2165	*†....do	Black Warrior River and Sipsey Fork of Black Warrior River.	111,500	286,000
2177	†Georgia Power Co.	Chattahoochee River	([12])	([12])
	Alaska:			
201	*Town of Petersburg	Outlet of Crystal Lake	1,860	1,860
420	*City of Ketchikan, Alaska	Ketchikan Creek and Lakes	7,500	7,500
1426	*Buchan Packing Co.	Upper and Lower Lakes	300	300
1521	*Pelican Utility Co.	Stream on North Shore of Lisianski Inlet.	600	600
1880	*Calvert Corporation	Hanley Lake and Creek	335	335
1922	*City of Ketchikan, Alaska	Beaver Falls Creek and Upper and Lower Silvis Lakes.	12,000	16,168
1946	*Mrs. O. B. Day	Allison Creek	375	375
1970	*Harvey F. Stelling	Solomon Gulch	225	225
1998	*Edible Herring Products, Inc.	Big Port Walter Falls Creek	398	398
2026	*Intercoastal Packing Co.	Crater and Ash Creeks and an unnamed creek.	271	271
2170	*Chugach Electric Association, Inc.	Cooper Creek and Lake; Kenai Lake and River.	21,000	21,000
2230	*City of Sitka	Blue Lake and Medvetcha River	10,500	15,750
2251	*San Juan Fishing and Packing Co.	San Juan Creek and Lake	351	351
2264	*Chatanika Power Company, Inc.	Chatanika River	6,700	6,700
2267	*Alaska Lumber & Pulp Co., Inc.	Medvetcha River	----------	1,100
	Arizona:			
2069	*The Valley National Bank of Phoenix, as Trustee.	Fossil Creek	11,100	11,100
	Arkansas:			
271	*†Arkansas Power & Light Co.	Ouachita River	92,500	132,000
	California:			
67	*†Southern California Edison Co.	San Joaquin River and tributaries.	186,000	186,000
77	*Pacific Gas & Electric Co.	Eel River and branch of Russian River.	14,500	16,500
78	*....do	South Fork American River	8,100	8,100
88	*Merced Irrigation District	Merced River	35,000	35,000
96	*†Pacific Gas & Electric Co.	San Joaquin River	45,000	45,000
99	*....do	Canyon Creek	2,815	2,815
120	*†Southern California Edison Co.	San Joaquin River	150,000	210,000
137	*Pacific Gas & Electric Co.	Mokelumne River, North Fork of Mokelumne River, Bear River, and other tributaries of North Fork.	256,500	256,500
175	*....do	North Fork of Kings River	182,000	182,000
176	*Escondido Mutual Water Co.	San Luis Rey River	1,334	1,500
178	*Pacific Gas & Electric Co.	Kern River	14,500	14,500
184	*....do	South Fork American River	28,000	28,000
187	*....do	North Fork Yuba River	9,000	9,000
233	*†....do	Pit River	415,000	415,000
344	*California Electric Power Co.	San Gorgonio and Whitewater Rivers.	3,375	3,375
372	*Southern California Edison Co.	Middle Fork of Tule River	3,000	3,000
382	*....do	Kern River	14,400	14,400
619	*Pacific Gas & Electric Co.	Bucks and other creeks	70,000	70,000
1250	*City of Pasadena	San Gabriel River	3,400	3,400
1302	*Placerville Lumber Co.	Gray Eagle Creek and Long Lake.	485	485
1333	*Pacific Gas & Electric Co.	North Fork of Middle Fork of Tule River.	7,200	7,200
1354	*....do	Willow Creek of North Fork San Joaquin River.	39,900	39,900
1388	*California Electric Power Co.	Leevining Creek	14,000	14,000
1389	*....do	Rush Creek	16,000	16,000
1390	*....do	Mill Creek	4,020	4,020
1394	*....do	Bishop, Birch, and McGee Creeks.	40,770	40,770
1403	*†Pacific Gas & Electric Co.	Yuba River	13,500	13,500
1533	*Swanson Mining Corporation	Madden (Campbell) Creek	1,920	1,920
1890	*Margaret P. Dawson	Milner Creek	350	350

See footnotes at end of table.

TABLE No. 1.—*Projects under major license, June 30, 1962* [1]—Continued

Project No.	Licensee	Stream	Installation (horsepower)	
			Present	Ultimate
	California—Continued			
1930	*Southern California Edison Co.	Kern River	43,000	43,000
1932	*.....do	Lytle Creek	800	800
1933	*.....do	Santa Ana River and tributaries	5,600	5,600
1934	*.....do	Mill and Mountain Home Creeks	4,250	4,250
1962	*Pacific Gas & Electric Co.	North Fork of Feather River	240,000	240,000
1988	*†.....do	Kings River, North Fork of Kings River, and Helms Creek.	244,000	244,000
2005	*Oakdale Irrigation District and South San Joaquin Irrigation District.	Middle Fork of Stanislaus River	88,500	88,500
2017	*†Southern California Edison Co.	San Joaquin River	115,000	115,000
2019	*Pacific Gas & Electric Co.	North Fork Stanislaus River and Silver, Beaver, Mill, and Angels Creek.	5,300	5,300
2067	*†Oakdale Irrigation District and South San Joaquin Irrigation District.	Stanislaus River	24,000	24,000
2085	*†Southern California Edison Co.	San Joaquin River, Rock and Ross Creeks.	176,000	176,000
2086	*†.....do	Mono Creek	(1)	(1)
2088	*†Oroville-Wyandotte Irrigation District.	South Fork of Feather River and Slate and Lost Creeks.	.....	123,000
2100	*†Department of Water Resources, State of California.	Feather River	.....	590,000
2101	*Sacramento Municipal Utility District.	Rubicon River and tributaries, Silver Creek and tributaries, and South Fork American River.	88,000	416,000
2105	*Pacific Gas & Electric Co.	North Fork Feather River and Butt and Yellow Creeks.	295,000	451,000
2106	*†.....do	McCloud and Pit Rivers	.....	452,000
2107	*.....do	North Fork Feather River	146,000	146,000
2130	*.....do	Stanislaus River and its Middle and South Forks.	45,300	158,300
2153	*United Water Conservation District.	Piru Creek	(1)	(1)
2174	*Southern California Edison Co.	Ward Tunnel	14,000	14,000
2175	*†.....do	Big Creek	183,956	183,956
2198	*.....do	Santa Ana River	2,250	2,250
	Colorado:			
400	*The Western Colorado Power Co.	Animas River and Lake Fork of San Miguel River and tributaries.	19,200	19,200
733	*The Western Colorado Power Co.	Uncompahgre River	1,000	1,000
2035	*City and County of Denver	South Boulder Creek	.....	10,500
2053	*The Fall River Power Co.	Fall River	1,000	1,000
	Florida:			
682	*†Florida Power Corp.	Ochlockonee River	13,000	13,000
	Georgia:			
485	†Georgia Power Co.	Chattahoochee River	(2)	(2)
659	†Crisp County	Flint County	21,400	21,400
1218	†Georgia Power Co.	Flint River and Muckafoonee Creek.	8,250	8,250
1951	*†.....do	Oconee River	61,000	61,000
2146	*†Alabama Power Co.	Coosa River	(2)	(2)
2177	†Georgia Power Co.	Chattahoochee River	124,300	156,100
2237	†.....do	.....do	23,100	23,100
	Idaho:			
18	*†Idaho Power Co.	Snake River	13,300	19,000
20	*Utah Power & Light Co.	Bear River	20,000	20,000
204	*The Washington Water Power Co.	South Fork Clearwater River	2,250	2,250
472	*Utah Power & Light Co.	Bear River	45,000	45,000
503	*†Idaho Power Co.	Snake River	14,300	14,300
568	*Hall Interstate Mining Co.	Stratton Creek	200	200
621	†The Washington Water Power Co.	Clearwater River	14,000	14,000
703	*Utah Power & Light Co.	Paris Creek	1,180	1,180
749	*California-Pacific Utilities Co.	Birch Creek	360	360
1413	*Pond's Lodge, Inc.	Buffalo River	268	268
1971	*†Idaho Power Co.	Snake River	860,000	1,847,000
1975	*†.....do	.....do	97,500	130,000
1991	*Village of Bonners Ferry	Moyie River	3,600	3,600
2042	*†Public Utility District No. 1 of Pend Oreille County, Wash.	Pend Oreille River	(3)	(3)
2055	*†Idaho Power Co.	Snake River	114,000	114,000
2058	*†The Washington Water Power Co.	Clark Fork River	282,000	282,000
2061	*†Idaho Power Co.	Snake River	85,800	85,800

See footnotes at end of table.

TABLE No. 1.—*Projects under major license, June 30, 1962* [1]—Continued

Project No.	Licensee	Stream	Installation (horsepower)	
			Present	Ultimate
	Indiana:			
2211	*†Public Service Co. of Indiana, Inc.	Ohio River	----------	124,500
	Illinois:			
287	†North Counties Hydro-Electric Co.	Fox River	5,400	5,400
	Iowa:			
925	†City of Ottumwa	Des Moines River	4,200	4,200
1853	†First Iowa Hydro-Electric Cooperative.	Cedar and Mississippi Rivers	----------	70,000
	Kentucky:			
289	*†Louisville Gas & Electric Co	Ohio River	108,000	135,000
539	*Kentucky Utilities Co	Kentucky River	3,000	3,000
	Maine:			
2142	†Central Maine Power Co	Kennebec River	105,000	105,000
2194	†-----do	Saco River	6,000	6,000
	Maryland:			
405	†The Susquehanna Power Co. and Philadelphia Electric Power Co.	Susquehanna River	350,000	690,000
	Massachusetts:			
1855	†New England Power Co	Connecticut River	(4)	(4)
1889	†Western Massachusetts Electric Co.	-----do	83,770	83,770
1904	†New England Power Co	-----do	(4)	(4)
2004	†Holyoke Water Power Co	-----do	38,485	102,985
	Michigan:			
401	†Michigan Gas & Electric Co	St. Joseph River	2,300	2,300
785	†City of Allegan	Kalamazoo River	3,350	3,350
1759	*†Wisconsin Michigan Power Co	Michigamme and Menominee Rivers.	33,200	33,200
1864	*Upper Penninsula Power Co	Middle Branch of Ontonagon River.	(1)	(1)
1980	†Wisconsin Michigan Power Co	Menominee River	27,600	38,000
2072	*†-----do	Paint River	155	155
2073	*†-----do	Michigamme River	13,000	13,000
2074	†-----do	-----do	3,800	3,800
2131	*†Wisconsin Michigan Power Co. and Kingsford Chemical Co.	Menominee River	9,600	9,600
	Minnesota:			
346	*†Minnesota Power & Light Co	Mississippi	17,400	26,100
362	*†Ford Motor Co	-----do	18,000	18,000
469	*†Minnesota Power & Light Co	Kawishiwi River	5,000	5,000
2056	*†Northern States Power Co	Mississippi	30,500	30,500
2089	†Border Counties Power Cooperative, Inc.	Big Fork River	850	850
	Missouri:			
459	*†Union Electric Co. of Missouri	Osage River	268,000	268,000
1494	*†Grand River Dam Authority	Grand River	(5)	(5)
2221	†The Empire District Electric Co.	White River	29,000	29,000
	Montana:			
5	*†The Montana Power Co	Flathead Lake and River	232,500	232,500
1473	*-----do	Flint Creek	1,500	1,500
1889	*†-----do	Clark Fork River	56,100	56,100
1878	*Jardine Mining Co	Bear Creek	1,180	1,180
2058	*†The Washington Water Power Co.	Clark Fork River	(5)	(5)
2075	*†-----do	-----do	550,000	687,500
2188	*†The Montana Power Co	Missouri and Madison Rivers	421,800	421,800
	Nebraska:			
1256	†Loup River Public Power District.	Loup River	63,600	63,600
1417	†The Central Nebraska Public Power and Irrigation District.	Platte and North Platte Rivers	77,000	102,000
1835	†Platte Valley Public Power and Irrigation District.	North and South Platte Rivers	36,000	77,500
	Nevada:			
1746	*E. L. Cord	Leidy or Robinson Creek	300	300
	New Hampshire:			
1855	†New England Power Co	Connecticut River	(4)	(4)
1889	†Western Massachusetts Electric Co.	-----do	(7)	(7)
1892	†New England Power Co	-----do	47,500	47,500
1893	†Public Service Co. of New Hampshire.	Merrimack River	22,500	22,500
1903	†Concord Electric Co	-----do	3,175	3,175
1904	†New England Power Co	Connecticut River	(4)	(4)
1913	†Public Service Co. of New Hampshire.	Merrimack River	2,150	2,150

See footnotes at end of table.

TABLE No. 1.—*Projects under major license, June 30, 1962* [1]—Continued

Project No.	Licensee	Stream	Installation (horsepower)	
			Present	Ultimate
	New Hampshire—Continued			
2077	†New England Power Co	Connecticut River	457,600	457,600
2140	†Public Service Co. of New Hampshire.	Merrimack River	11,234	11,234
	New York:			
13	*†Henry Ford & Son, Inc	Hudson River	8,100	8,100
16	†Niagara Mohawk Power Corp	Niagara River	217,000	559,500
2000	†Power Authority of the State of New York.	St. Lawrence River	1,136,000	1,136,000
2047	†Niagara Mohawk Power Corp	Sacandaga River	40,000	40,000
2060	†....do	Raquette River	(1)	(1)
2084	†....do	....do	142,000	142,000
2216	†Power Authority of the State of New York.	Niagara River	2,847,500	2,930,000
	North Carolina:			
432	†Carolina Power & Light Co	Big Pigeon River	147,000	147,000
693	*Town of Highlands	Cullasaja Creek	300	900
2009	†Virginia Electric and Power Co	Roanoke River	140,000	420,000
2169	†Tapoco, Inc	Little Tennessee and Cheoah Rivers.	(11)	(11)
2197	†Yadkin Inc	Lower Yadkin stretch of Yadkin-Pee Dee River.	212,760	242,760
2206	†Carolina Power & Light Co	Yadkin-Pee Dee River	156,050	156,050
2232	†Duke Power Co	Catawba-Wateree River	654,320	1,138,320
	Oklahoma:			
1494	*†Grand River Dam Authority	Grand River	120,000	120,000
2183	*†....do	....do		140,000
	Oregon:			
135	*Portland General Electric Co	Clackamas River and Oak Grove Fork.	80,000	120,000
308	*Pacific Power & Light Co	East Fork Wallowa River and Royal Purple Creek.	1,500	1,500
1097	*Leonard Lundgren	Jack Creek	125	125
1447	*Pacific Power & Light Co	Crooked River	2,270	2,270
1927	*....do	North Umpqua and Clearwater Rivers, and Fish Creek.	255,200	255,200
1971	*†Idaho Power Co	Snake River	(8)	(8)
1986	*....do	Rock Creek	1,760	1,760
1987	*....do	Lake, Upper Lake, North Fork of Desolation, Lost, and North Fork of Congo Creeks.	1,800	1,860
2030	*Portland General Electric Co	Deschutes River	165,000	510,000
2082	*Pacific Power & Light Co	Klamath River	219,490	219,490
2195	*Portland General Electric Co	Clackamas River	69,000	69,000
2242	*City of Eugene, Oregon	McKenzie and Smith Rivers		123,700
	Pennsylvania:			
309	†Pennsylvania Electric Co	Clarion River	34,000	46,000
405	†The Susquehanna Power Co. and Philadelphia Electric Power Co.	Susquehanna River	(8)	(8)
487	†Pennsylvania Power & Light Co	Wallenpaupack Creek	57,000	57,000
1025	†Safe Harbor Water Power Corp	Susquehanna River	297,500	510,000
1881	†Pennsylvania Power & Light Co	....do	158,000	158,000
1883	†Metropolitan Edison Co	....do	28,800	28,800
1899	†Pennsylvania Electric Co	....do	700	700
2095	†International Paper Co	....do	3,710	3,710
	South Carolina:			
199	*†South Carolina Public Service Authority.	Santee and Cooper Rivers	175,980	215,980
516	†South Carolina Electric & Gas Co	Saluda River	180,000	270,000
1267	†Greenwood County	....do	22,200	22,200
1894	†South Carolina Electric & Gas Co	Broad River	21,600	21,600
1895	†....do	Broad and Congaree Rivers	15,000	15,000
2232	†Duke Power Co	Catawba-Wateree River	(12)	(12)
	Tennessee:			
2169	†Tapoco, Inc	Little Tennessee and Cheoah Rivers.	481,000	481,000
	Texas:			
1490	†The Brazos River Authority	Brazos River	34,000	51,000
1952	†Maverick Co. Water Control and Improvement District No. 1.	Rio Grande	(1)	(1)
	Utah:			
190	*Uintah Power & Light Co	Uinta River and Pole Creek	1,700	1,700
486	*Utah Power & Light Co	Logan River	3,000	3,000
597	*....do	Big Cottonwood Creek	1,500	1,500
665	*....do	Santaquin Creek	1,700	1,700
671	*....do	Alpine Creek and South Fork	3,000	3,000
696	*....do	American Fork Creek	1,260	1,260
713	*....do	Mill and other creeks	650	650
814	*Telluride Power Co	Beaver River and tributaries	4,200	8,200

See footnotes at end of table.

TABLE NO. 1.—*Projects under major license, June 30, 1962*[1]—Continued

Project No.	Licensee	Stream	Installation (horsepower)	
			Present	Ultimate
	Utah—Continued			
946	*Hyrum City	Blacksmith Fork	600	600
1273	*Parowan City	Center Creek	496	496
1517	*Monroe City Corp	Shingle Creek and First Left Hand Fork of Monroe Creek.	144	144
1574	*Manti City Corp	Manti Creek	530	530
1744	*Utah Power & Light Co	Weber River	5,000	5,000
1773	*Moon Lake Electric Association, Inc.	East Fork of Lake Fork of Duchesne River.	1,200	1,200
1858	*Beaver City	Beaver River	750	750
1994	*Heber City, town of Midway, and town of Charleston, doing business as Heber Light & Power Plant.	Snake Creek	1,100	1,100
2219	*Garkane Power Association, Inc.	East Fork Boulder Creek	5,925	5,925
	Vermont:			
1855	†New England Power Co	Connecticut River	57,571	57,571
1889	†Western Massachusetts Electric Co.	do	(7)	(7)
1892	†New England Power Co	do	(8)	(8)
1904	†do	do	41,560	41,560
2077	do	do	(8)	(8)
2090	†Green Mountain Power Corp	Waterbury (or Little) River	7,900	7,900
	Virginia:			
739	†Appalachian Electric Power Co	New River	104,000	104,000
1235	†City of Radford	Little River	1,440	1,440
2210	†Appalachian Power Company	Roanoke River		850,600
	Washington:			
553	*†The City of Seattle	Skagit River	938,000	938,000
588	*Crown Zellerbach Corp	Elwha River	16,500	16,500
637	*Public Utility District No. 1 of Chelan County, Wash.	Chelan River and Lake	68,000	136,000
719	*Jesse I. Smith	James and Phelps Creeks	415	415
935	*†Pacific Power & Light Co	Lewis River	165,000	220,000
943	*†Public Utility District No. 1 of Chelan County, Wash.	Columbia River	288,000	288,000
1393	*†Pend Oreille Mines & Metals Co	Pend Oreille River	4,000	4,000
1487	*†Quinault Light Co	Ziegler Creek	375	1,125
1663	*Lambda Chemical Products Co	South Fork of Stillaguamish River.	395	395
1862	*City of Tacoma	Nisqually River	156,000	156,000
2016	*†do	Cowlitz River		632,000
2042	*†Public Utility No. 1 of Pend Oreille County, Wash.	Pend Oreille River	98,000	98,000
2071	*†Pacific Power & Light Co	Lewis River	140,000	280,000
2111	*†do	do	321,000	321,000
2114	*†Public Utility District No. 2 of Grant County, Wash.	Columbia River	1,140,000	3,744,000
2145	*†PUD No. 1 of Chelan County, Wash.	do	980,000	1,540,000
2144	*†The City of Seattle	Pend Oreille River		1,260,000
2150	*†Puget County Power & Light Co.	Baker River	254,000	254,000
2157	*†Public Utility Dist. No. 1 of Snohomish County, Wash.	Sultan River		193,300
2213	†PUD No. 1 of Cowlitz County, Wash.	Lewis River	92,000	92,000
2225	*PUD No. 1 of Pend Oreille County, Wash.	Sullivan Creek and Lake	(1)	(1)
2244	*Washington Public Power Supply System.	Lake Creek		36,700
	West Virginia:			
1175	*†Kanawha Valley Power Co	Kanawha River	42,900	42,900
1290	*†do	do	27,550	27,550
	Wisconsin:			
108	*†Northern States Power Co	Chippewa River	(1)	(1)
710	*†Wisconsin Power & Light Co	Wolf River	900	900
1510	†City of Kaukauna	Fox River	6,600	6,600
1759	*†Wisconsin Michigan Power Co	Michigamme and Menominee Rivers.	(10)	(10)
1940	*†Wisconsin Public Service Corp	Wisconsin River	4,140	4,140
1953	*†Consolidated Water Power Co	do	10,680	10,680
1957	†Wisconsin Public Service Corp	do	1,033	1,033
1960	*†Dairyland Power Cooperative	Flambeau River	21,150	21,150
1966	†Wisconsin Public Service Corp	Wisconsin River	23,050	23,050
1967	†Whiting Plover Paper Co	do	967	967
1968	†Wisconsin Public Service Corp	do	2,675	2,675
1979	*†Wisconsin Public Service Corp	do	6,648	6,648
1980	†Wisconsin Michigan Power Co	Menominee River	(10)	(10)
1981	†Oconto Electric Cooperative	Oconto River	1,500	2,250
1982	*†Northern States Power Co	Chippewa River	48,000	48,000

See footnotes at end of table.

TABLE No. 1.—*Projects under major license, June 30, 1962* [1]—Continued

Project No.	Licensee	Stream	Installation (horsepower)	
			Present	Ultimate
	Wisconsin—Continued			
1984	*†Wisconsin River Power Co.	Wisconsin River	50,300	50,300
1989	†Wisconsin Public Service Corp.	do	1,150	1,150
1999	do	do	7,987	7,987
2064	*†Winter Electric Light & Power Co.	East Fork of Chippewa River	846	846
2110	*†Consolidated Water Power Co.	Wisconsin River	6,840	6,840
2113	†Wisconsin Valley Improvement Company.	Wisconsin River and tributaries	(1)	(1)
2131	*†Wisconsin Michigan Power Co.	Menominee River	(10)	(10)
2161	*†Rhinelander Paper Co.	do	3,900	3,900
2180	†National Container Corp. of Wisconsin.	Wisconsin River	4,500	4,500
2181	†Northern States Power Co. of Wisconsin.	Red Cedar River	7,500	7,500
2192	*†Consolidated Water Power Company.	Wisconsin River	8,125	8,125
2207	†Mosinee Paper Mills Co.	do	4,268	4,268
2212	†American Can Co.	do	4,850	4,850
2239	†Tomahawk Power Co.	do	3,464	3,464
2255	†Nekoosa-Edwards Paper Co.	do	5,100	6,250
2256	†Consolidated Water Power Co.	do	15,400	15,400
	†Wyoming:			
662	Pinedale Power & Light Co.	Pine Creek	168	336
1198	Lower Valley Power & Light Inc.	Flat Creek	730	730
1651	do	Swift Creek	1,485	1,485
1740	California-Pacific Utilities Co.	Pine Creek	400	400
1861	Lower Valley Power & Light Inc.	Flat Creek	160	160
2032	do	Strawberry Creek	2,175	2,175
	Puerto Rico:			
663	*Puerto Rico Water Resources Authority.	Blanco River and tributaries	7,000	7,000
	Total		23,006,014	36,018,316

Basis for jurisdiction:
*Affects Government lands.
†Affects navigable waters.
[1] Reservoir only.
[2] Listed under Alabama.
[3] Listed under Washington.
[4] Listed under Vermont.
[5] Listed under Oklahoma.
[6] Listed under Idaho.
[7] Listed under Massachusetts.
[8] Listed under Maryland.
[9] Listed under New Hampshire.
[10] Listed under Michigan.
[11] Listed under Tennessee.
[12] Listed under Georgia.
[13] Listed under North Carolina.

Mr. SWIDLER. If you look at page D–11 it shows projects requiring inspection at the start of the year. It shows 282 projects.

Mr. THOMAS. Those are numbers.

Mr. SWIDLER. Numbers of projects. I thought you were interested in that. It would increase to 314 by the beginning of fiscal year 1964.

Mr. THOMAS. All of them require some attention. If not the case falls flat on its face. How are you going to justify the expenditure of money unless you are going to work on them?

Mr. SWIDLER. I was trying to supply the totals. I thought you were interested in them.

Mr. THOMAS. We are. The 322 is the figure?

Mr. SWIDLER. Yes.

Mr. THOMAS. How many will you add this year? I do not refer to alterations and additions but new installations.

Mr. SWIDLER. In 1964 there will be 38 additional projects.

Mr. THOMAS. What do you mean by projects? That is not a new installation; is it?

Mr. SWIDLER. Yes, sir; a new project or existing project brought under license.

The number of projects requiring inspection jumps from 284 at the beginning of 1963 to 314 at the beginning of 1964.

Mr. THOMAS. The number of inspections performed shows the total. Projects inspected number 303, total 352.

Projects added during the year are 38.

Mr. SWIDLER. That is right. It is the middle column.

Mr. THOMAS. That does not mean it is a completely new installation. It could be you added a new turbine.

Mr. SWIDLER. These are all individual projects.

Mr. THOMAS. Where are they located, Judge Brown?

Mr. BROWN. I have a list of projects under consideration for license.

Mr. THOMAS. Put your finger on it when we get to it.

COLLECTIONS

Mr. OSTERTAG. Before you leave the subject of collection, I would like to raise one general question in regard to it. Why do you fail to set forth the entire revenue, the entire collections, of the Federal Power Commission under the several acts to which it might have a relationship? There are some forms of income you have shared with the States, also. Is that true?

Mr. SWIDLER. Yes, sir.

Mr. OSTERTAG. It would seem to me that a regular table of receipts and expenditures would be in order in this justification. I have glanced through a number of the activities in this field but I am unable to grasp a clearcut picture of overall revenues.

This money is not revolving in any sense of the word. It goes to the Treasury of the United States; does it not?

Mr. SWIDLER. Yes, sir.

Mr. OSTERTAG. If we have never had it up to now it seems to be time to have it.

Mr. THOMAS. Put it all together for us next year.

He sets out payments to States, $68,000, and so on.

What Mr. Ostertag wants to have is it all tied together on one sheet.

Mr. SWIDLER. We shall be glad to do it. I do want to emphasize, Mr. Ostertag, that we are not like TVA, for example, an agency which attempts to balance income against expenditures.

Even this income we show here for benefits from headwater improvements is not income we earn but a result of the investments made by the Corps of Engineers and the Bureau of Reclamation.

However, I do think we could have a more meaningful table which would show what money does comes in from our various responsibilities.

Mr. OSTERTAG. And the distribution made with regard to allocation to the States, for example?

Mr. SWIDLER. Yes, sir.

Mr. OSTERTAG. I notice, too, that there is one item of repayment to the United States for the Niagara project. That was $6,493,000 in 1962. Now it is down to $35,000. What has happened in this case?

Mr. SWIDLER. This is not an annual payment for headwater benefits but a compensation for a special activity carried on by the United States for the benefit of the State project.

Mr. OSTERTAG. You are budgeting $35,000.

Mr. SWIDLER. I don't know why it is broken up in that way.

Mr. TRAINOR. That will be the annual payment.

Mr. OSTERTAG. There is an annual payment of $35,000?

Mr. TRAINOR. That is right.

Mr. SWIDLER. The big payment is nonrecurring.

NATURAL GAS INDUSTRY

Mr. THOMAS. Insert B–1.

(The page referred to follows:)

SECTION 1. NATURAL GAS INDUSTRY

This activity includes the Commission's entire responsibility for regulation of the natural gas industry. Experience for the past year, positions and salaries approved for the current year, and estimates for the budget year are as follows:

Fiscal year	Positions	Salaries
1962	519	$3,877,214
1963	675	5,062,700
1964	750	5,848,700

Summary tabulations showing workload and/or position requirements in support of the positions estimated for fiscal year 1964 appear later in the budget estimate following the introductory statement for each activity.

All of the total increase of 75 positions requested for fiscal 1964 will be assigned to producer regulation. The accomplishments of the past year afford a reasonable basis for our belief that with the additional staff we are requesting genuinely effective regulation of the natural gas industry can be attained. This natural gas budget estimate is tied, in part, to the planning reflected in the fiscal year 1963 budget which was the first for which the new membership of the Federal Power Commission took responsibility. It translates that planning into programs based upon newly established policies, procedures, organization, and staffing. The conditions for effective regulation are much improved and this budget reflects the Commission's determination to eliminate swollen backlogs and bring order to the dispatch of the Commission's work.

GAS ACTIVITIES

Mr. THOMAS. Let me read page B–2.

To carry out the regulation of the natural gas industry under the act, the Commission requires enough competent people to examine, analyze—

Et cetera.

The staff is responsible for initiating and conducting investigations to test the reasonableness of rates and other aspects of company operations and make recommendations to the Commission to assure that those operations are in the public interest. The staff must also fully develop the facts and evidence needed in formal cases to assure an adequate record upon which the Commission may confidently rely if it is to arrive at sound decisions in the public interest. Adequate staff is the backbone of effective regulation.

I thought it stated "backbone of the Commission," but it states "of effective regulation."

Experience during the past year shows that the responsibilities of the Commission cannot be discharged in the greatest public interest with the staff presently authorized.

This just puts the staff up there in the place of the Commission.

We have made such progress and we are continuing to strive for even greater productivity from our staff, but as the Senate Appropriations Committee stated, in approving the Commission's 1963 appropriation request: "The committee believes that the Commission's present backlog of natural gas cases is a product of its huge workload and limited staff."

This is all nice reading.

May I read a paragraph from B–5.

REBATES TO RETAIL CUSTOMERS

The Commission has made significant strides toward eliminating the backlog of natural gas pipeline rate cases with 85 pipeline rate cases disposed of since July of 1961. As of December 31, 1962, refunds of $349 million in principal and interest have been ordered. For the first time in years, most pipeline companies have firm rates and a financial status unclouded by staggering contingent refund obligations. Consumers may now expect to receive the refunds to which they are entitled for overcharges which they have paid in their gas bills for years.

You have no jurisdiction over the retailer?

Mr. SWIDLER. No, sir.

Mr. THOMAS. You don't know what price he is charging?

Mr. SWIDLER. No, sir.

Mr. THOMAS. It is not your business, is it?

Mr. SWIDLER. I think maybe it is our business and perhaps we should do more about it to find out. It is not our business to try to fix the retail prices but perhaps it is our business to find out what they are.

Mr. THOMAS. Do you follow up the rebate to their customers?

Mr. SWIDLER. We cannot order rebates. Some distributors may be entitled to hold on to them.

Mr. THOMAS. How can you make this flat statement, then:

Consumers may now expect to receive refunds to which they are entitled for overcharges which they have paid in their gas bills for years?

Mr. SWIDLER. We know a lot of it has been repaid, perhaps the bulk of it. I would think it would be the exceptional situation where a distributor could show it was entitled to keep the refund.

I think all you can ask is that the State commissions——

Mr. THOMAS. I thought you gave the answer to that this morning. You said if they had not got back the money the gas rates would have had to be raised higher.

Mr. SWIDLER. They should be sure there is justification in each case where they are not passed along.

Mr. OSTERTAG. Rate to the consumer is regulated by the State.

Mr. SWIDLER. Occasionally not at all. There are some States which do not regulate——

NUMBER OF PIPELINES UNDER FPC JURISDICTION

Mr. THOMAS. How many pipelines are there under your jurisdiction?

Mr. SWIDLER. About 100 under our jurisdiction. About 150 are engaged in interstate commerce but are exempt because they do all their business in one State.

Mr. THOMAS. How many are intercontinental, in excess of 400 to 500 miles in length?

Mr. SWIDLER. Thirty-two major ones. It accounts for 89 percent of the business. They account for that much of the interstate business.

Mr. THOMAS. That is the only jurisdiction you have, is it not?

Mr. SWIDLER. Yes, sir.

CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY

Mr. THOMAS. Insert page B–9 and the top of page B–10 in the record.

(The pages referred to follow:)

A. CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY

The following table summarizes the pipeline and independent producer certificate workload and positions used in the past year, estimated for the current year, and projected for the budget year.

	On hand, 1st of year	Number received	Workload	Number completed	Positions	On hand, end of year
1962 ACTUAL						
Pipelines	273	313	586	317	105	269
Independent producers	2,927	1,644	4,571	2,051	58	2,520
Total	3,200	1,957	5,157	2,368	163	2,789
1963 ESTIMATE						
Pipelines	269	329	598	408	145	190
Independent producers	2,520	1,850	4,370	2,700	71	1,670
Total	2,789	2,179	4,968	3,108	216	1,860
1964 ESTIMATE						
Pipelines	190	345	535	420	145	115
Independent producers	1,670	1,950	3,620	2,700	71	920
Total	1,860	2,295	4,155	3,120	216	1,035

The certificate activities include all work under sections 1, 3, and 7 of the Natural Gas Act. Of course, just as with all rate and certificate cases the filings are initiated by the companies and the Commission thus has little direct control over the volume of this activity. Anticipated filings of 2,179 certificate applications in 1963 and 2,295 certificate applications in 1964 are based on our experience and the expected growth of the industry. Our estimates of workload completions are premised on a prompt disposition of anticipated filings and disposal of 2,520 independent producer applications and 269 pipeline applications on hand July 1, 1962. The importance of this activity to the consumers and to the Nation's economy requires immediate reduction of the total backlog of 2,789 cases. Given the staff requested in this budget, we expect to become current in our certificate work for both pipelines and producers by the end of fiscal year 1964. The carryover of cases will then approximate one-third of those received in a normal year, which we consider to be a reasonable cases-on-hand goal.

No increase in positions is requested for this activity for fiscal year 1964, despite the projected increase in both receipts and dispositions. However, we must maintain the staff authorized for the current fiscal year if we are to meet the goals we have set for the ensuing year.

Mr. THOMAS. You show pipeline cases at the beginning of the year of 1962, 273 cases. How many pipelines do you have, large pipelines?

Mr. SWIDLER. 32 big ones.

Mr. THOMAS. They account for 89 percent of the workload?

NATURE OF CERTIFICATION WORKLOAD

Mr. UNNEVEHR. Within that 273 certificate cases, some of the big companies have several proceedings. It is not fair to say that there is a case per company.

Mr. THOMAS. It looks from your figures every time one writes you a letter you put it down here in the justification as a case. That is what I am getting at. You anticipate me.

Therefore these figures are not exactly proper. These are all pipelines you have jurisdiction over. If they want to run a spur of a half mile, they have to come in and get a certificate, do they not?

Mr. SWIDLER. No, sir; not necessarily.

Mr. THOMAS. What do you mean, not necessarily?

Mr. SWIDLER. We have initiated a program of granting budget authorizations where for certain kinds of routine expansions we may grant authorization to make any number of expansions as long as they don't total, say, over so many millions of dollars; so long as no one project is over so many dollars; and as long as they do not involve specified kinds of new service or taking gas from an uncertificated producer. We have tried to identify situations which do not require us to go through a separate processing and which allow us to give blanket authorization.

We do not try to make work.

Mr. THOMAS. The table shows you completed in fiscal year 1962, 317 cases. In those 317 how many did the Commission pass on?

Mr. SWIDLER. All of them.

Mr. THOMAS. In what part, if any, of the 317 change or alter either the opinion of the staff or the hearing examiner?

Mr. SWIDLER. Perhaps a small percentage. I would have to guess. I would say perhaps one-half or two-thirds did not require extensive consideration.

A really complicated certificate case is a very wearing and time-consuming thing.

Mr. THOMAS. How many complicated certificate cases did you have? You completed 317 in 1962.

In 1963 you estimate you will complete 408.

Mr. SWIDLER. I can give you a figure on those in controversial hearings.

Mr. THOMAS. It is universal knowledge that in these cases the Commission rubberstamps verbatim at least 90 to 95 percent of the decisions which the staff sends up to you.

Mr. SWIDLER. No, sir; I don't think that is so.

Mr. THOMAS. What is your figure? If my figure is wrong straighten it out.

Mr. SWIDLER. In the great majority of cases the application will raise no particular problem and it will go through routinely. It will go through the staff as well as the Commission as a routine case. This

is good. There is no reason to puff up and make elaborate something which is——

Mr. THOMAS. Do you sit en banc when you make these decisions?

Mr. SWIDLER. Yes, sir. There are standards we set up. If the case meets the standards we try to put it through in an abbreviated proceeding. If there are no interventions and no opposition it goes through in a hurry with little expense, little delay, and with no more attention than the merits justify.

When you get a really complex hearing where you have great competition for valuable service rights—the right to serve southern California, for example, which is perhaps the most celebrated, or serving the St. Louis market with its expanded requirements—you have competing pipelines coming in and all communities which have a stake one way or the other. You also have all the other competing fuels in the picture. You have the coal people, fuel oil people, liquified petroleum gas people, and then you really have a fantastically difficult and involved case.

Mr. THOMAS. How many of those cases did you have in 1963?

Mr. SWIDLER. I will have to supply that figure. (The figure is 30, 10 percent of the total cases disposed of in 1962.)

Mr. THOMAS. You have a figure of the number completed in 1963 which is somewhat of a guess figure. You show 408.

You show 317 for 1962 and 420 for 1964.

Mr. SWIDLER. I don't know that you can get a sharp line there. There is some gradation. There are some cases which were most difficult and complex. Others required very little time at all.

Even on those which we handle on a routine basis, they all come before the Commission and we look at them as they go through——

Mr. THOMAS. Then why do you need 145 people if they are routine?

Mr. SWIDLER. There is a large amount of study which goes into each of these projects.

Mr. THOMAS. You show an increase of about 30 percent from 1962.

Mr. SWIDLER. This is a large nuumber of cases, sir. It will take a lot of processing.

Mr. THOMAS. Eighty to ninety percent are minor additions.

Mr. SWIDLER. You process them, anyway. If you start rubberstamping you don't know what you have stamped. None are rubberstamped.

Mr. THOMAS. But they are routine cases.

Mr. SWIDLER. I can assure you we give no more attention to a case than it deserves. We are just as anxious as the committee is not to waste time——

Mr. THOMAS. That is the point. I don't think you give any attention to 90 percent of the cases. You depend on the staff and rubberstamp what the staff tells you.

Mr. SWIDLER. The only case where that could occur would be in the noncontroversial cases where everybody is agreed. If there are any issues imbedded we would know about them.

I suppose to a degree we have to depend upon the parties to expose the issues. This is certainly not the case, however, Mr. Chairman, where there has been a hearing and the parties have stated conflicting positions.

In such cases the Commission makes the decision. We have our own analysis made by one of the special assistants and we ourselves look at the record to the extent that time permits. We get the help of staff who are not themselves involved in the proceeding, and we make as intensive a study as we possibly can. We do not automatically accept staff recommendations.

CERTIFICATION OF INDEPENDENT PRODUCERS

Mr. THOMAS. You had 2,900 independent producer cases at the beginning of 1962; you completed 2,000, and you carried over about 2,500.

When you get the Permian Basin area proposition straightened out, what others do you expect?

Mr. SWIDLER. Texas Gulf coast perhaps would be the next, and it might be the Anadarko Basin would come after that. I can't list future proceedings because that has not been decided.

Mr. THOMAS. You had 58 people in 1962, and now you have 71. How complicated is this?

Mr. SWIDLER. In the certifications?

Mr. THOMAS. Certifications of independent producers.

Mr. SWIDLER. Some of these cases are the most complicated that any tribunal has to decide.

Mr. THOMAS. I do not refer to rates.

Mr. SWIDLER. I refer to certificates.

Mr. THOMAS. Why is it so complicated?

Mr. SWIDLER. Take, for example, the service to southern California. In that case we had two of the giants in the industry competing, one on the so-called Pemex project where the gas came mostly from Texas, and the pipeline would go south into Mexico and then come up into California, and to be tied almost exclusively to generating plants in southern California.

The other is the Rock Springs project of El Paso, Tex.

Mr. THOMAS. Have you decided the first case?

Mr. SWIDLER. No, sir; it was finally withdrawn after hearings that went on for years, but they are filing a new case now on a little different basis, a new proceeding.

In the *Rock Springs* case the examiner has handed down his decision. We are about to hear oral argument in that case. That also went on for years, with the other pipelines also involved.

In addition to these two there is Trans-Western which serves the southern California area, which is affiliated with the Gulf Oil Co., and it, too, intervened in both proceedings.

I need not say that the communities in California and all the big distributors were in these cases.

Mr. THOMAS. You are talking about a pipeline case, are you not?

Mr. SWIDLER. Yes.

Mr. THOMAS. I am talking about independent producers.

Mr. SWIDLER. Independent producer certificate cases?

Mr. THOMAS. Yes.

Mr. SWIDLER. I am sorry, sir. I think in independent producer certificate cases the rate question——

Mr. THOMAS. We are talking about a certificate here and not rates. What is so complicated about it? You are making a utility out of them and give them a piece of paper stating they are utilities. You have 71 people doing that.

You are not talking about the rate and why you are getting them into the utility business. What is so complicated about that?

If the Chairman of this distinguished Commission has to turn around and ask his staff how complicated they are and why they are complicated we can take that as an answer.

Mr. SWIDLER. I was consulting with Mr. Unnevehr——

RATE FILINGS

Mr. THOMAS. Insert pages B–10 and B–11 in the record, rate filings. (The pages referred to follow:)

RATE FILINGS

The following table shows the total pipeline and producer rate filing workload and positions in the past year, estimated for the current year, and projected for the budget year.

Fiscal year	On hand 1st of year	Number received	Workload	Number completed	Positions	On hand end of year
1962	1,032	7,765	8,797	7,972	68	825
1963	825	8,155	8,980	8,299	70	681
1964	681	8,545	9,226	8,513	70	713

Under the Natural Gas Act, the Commission must either approve or suspend a rate application within 30 days after its receipt; otherwise, the increase becomes effective automatically. It is therefore essential that sufficient staff be available to analyze and report promptly on each rate filing in order that the Commission may have a sound basis on which to decide whether the rate should be suspended. The Commission has been able to meet this 30-day deadline in the past only by subordinating other activities. The initial investigation of a rate increase is but the first step in the orderly disposition of these cases.

Rate filings, pipelines

Fiscal year	On hand 1st of year	Number received	Workload	Number completed	Positions	On hand end of year
1962	31	1,168	1,199	1,102	22	97
1963	97	1,228	1,325	1,222	24	103
1964	103	1,288	1,391	1,283	24	108

Anticipated filings by pipeline companies of 1,228 in 1963 and 1,288 in 1964 are based on the forecasted steady upward trend in industry growth. A slight increase in both the number of new rate filings and completions is projected for the budget year, with increased efficiency expected to handle this work without any increase in the number of positions requested.

Rate filings, independent producers

Fiscal year	On hand 1st of year	Number received	Workload	Number completed	Positions	On hand end of year
1962	1,001	6,597	7,598	6,870	46	728
1963	728	6,927	7,655	7,077	46	578
1964	578	7,257	7,835	7,230	46	605

Based on previous experience and the expected steady industry growth, we anticipated 6,927 filings by independent producers in 1963 and 7,257 filings in 1964. We expect to handle this increased workload with the same number of staff as for the present fiscal year.

Mr. THOMAS. Look at the break between the independent producers and the pipelines. That is on page B–11.

In 1962 at the beginning of the year you had on hand 31 pipeline rate filings. The number received was 1,168. You completed 1,102.

How many of these were of major consequence? How many did the Commission decide? How many were handled by the staff as a routine matter? Let us have these figures mean something.

Mr. SWIDLER. The Commission decided them all.

Mr. THOMAS. Under the law you decide them. We won't argue about that.

Mr. SWIDLER. The question is how many were involved in controversy?

Mr. THOMAS. How many did the Commission see and know about before they were solved?

Mr. SWIDLER. Every one, sir. On our agenda each one of these cases was listed separately and there is an explanation of the substance of the case and the background. We obviously could not get that information ourselves. It is prepared by the staff.

Mr. THOMAS. You have 32 major pipelines and they constitute 89 percent of the total workload, so out of these 1,102 cases you had 18 or 19 companies, each one with a slight addition here and there, and you listed it here as a big item of workload.

Mr. SWIDLER. No, sir. These required a lot of attention on these rate filings.

Mr. THOMAS. How many cases were decided after oral argument, and what not, by the Commission itself?

Mr. SWIDLER. I can't give you a precise figure.

Mr. THOMAS. What is the best guess?

Mr. SWIDLER. On rate filings I would say very few.

Mr. THOMAS. Independent producers, I assume, is the same answer.

NATURAL GAS RATE REGULATION

Insert page B–12 on rate regulation.

(The page referred to follows:)

C. RATE REGULATION

The following tables summarize pipeline and independent producer rate case workload and positions during the past year, estimated for the current year, and projected for the budget year.

1. *Rate cases—Pipelines and independent producers*

Fiscal year	On hand 1st of year	Number received	Workload	Number completed	Positions	On hand end of year
1962	2,668	547	3,215	194	269	3,021
1963	3,021	618	3,639	1,114	361	2,525
1964	2,525	648	3,173	2,292	433	881

2. *Rate cases—Pipelines*

Fiscal year	On hand 1st of year	Number received	Workload	Number completed	Positions	On hand end of year
1962	116	12	128	46	154	82
1963	82	40	122	73	199	49
1964	49	42	91	62	188	29

3. *Rate investigations—Pipelines*

Fiscal year	On hand 1st of year	Number initiated	Workload	Number completed	Positions	On hand end of year
1963		15	15	10	27	5
1964	5	17	22	13	32	9

If a request by a pipeline for a rate change appears to be excessive or might result in undue discrimination or preference the effective date of the increase is suspended for 5 months and a formal rate case is started. The other rate matters which are classified as rate investigations are based on complaints filed by customers or local regulatory bodies or proceedings instituted by the Commission where existing rates appear to be excessive or where rates and practices appear to indicate undue discrimination or preference.

Mr. THOMAS. This gives you the similar type of information. The figures are large but when you analyze them, as in the other two instances, they do not mean quite what they seem on the surface.

ACCOUNTING FUNCTIONS

Insert page B–17, on enforcement of uniform accounting.
(The page referred to follows:)

D. ENFORCEMENT OF UNIFORM ACCOUNTING

Fiscal year:	*Positions*
1962	10
1963	16
1964	19

The formulation and enforcement of accounting systems which will assure the proper accumulation of costs allowable in a rate case is the key to effective rate regulation. The Commission has developed a uniform system of accounts for the pipelines and enforcement is accomplished primarily in two ways. First, through a review of the accounting practices of pipeline companies, and, second, through the review of their annual financial reports.

An increase of three positions is requested for this activity in fiscal year 1964. Details in justification of this increase are discussed in the following paragraphs.

Mr. THOMAS. You want 19 positions. You have 16 and want to increase it to 19. What is the total number of people——

Mr. SWIDLER. In the accounting division? The Division of Accounts will have 76 positions, plus 27 in the San Francisco office. It is 103 positions.

Mr. THOMAS. What is the nature of the employment? What qualifications do the personnel require? You have a GS–18 as a top accountant. Division of Accounts and Statistics has a 15. What is the background, experience, and training of these people? Are they engineers, economists, lawyers?

Mr. SWIDLER. Professional accountants. Senior people are all professional accountants.

Mr. THOMAS. Is there any overlapping with the economists?

Mr. SWIDLER. No, sir. There are a few economists in the Division of Finance and Statistics working on rate of return studies, for example. It is this division which puts in the evidence in rate cases regarding rate of return.

Mr. THOMAS. What is the total increase requested here for the Division of Accounts, Office of Accounting and Finance?

Mr. SWIDLER. Seventeen.

Mr. THOMAS. It all adds up to 17?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. How many positions do you have now?

Mr. PILCHER. 138.

Mr. THOMAS. Does that include the 27 in the San Francisco office?

Mr. PILCHER. Yes, sir.

Mr. THOMAS. You are seeking an increase of 17 to make it 155?

Mr. PILCHER. That is right.

Mr. THOMAS. How many unfilled jobs did you have here on January 1?

Mr. RAINWATER. Twenty-three, I believe.

Mr. THOMAS. Is this your Division, Mr. Rainwater?

Mr. RAINWATER. Yes, sir.

Mr. THOMAS. Our distinguished friend is still with the Commission. He has been there a long time and does a tremendous job.

How many years of service have you had, Mr. Rainwater?

Mr. RAINWATER. I am in my 27th year now.

Mr. THOMAS. What is your home State?

Mr. RAINWATER. Illinois.

Mr. THOMAS. You have had a long and distinguished career. We hope it lasts at least 40 years more. You were here when I came here.

Mr. RAINWATER. I came in 1937.

Mr. THOMAS. We are of the same vintage.

Good luck to you. I hope you stay another 40 years.

Off the record.

(Discussion held off the record.)

ELECTRIC POWER INDUSTRY

Mr. THOMAS. Let us look at the electric power industry. Insert pages C–1 and C–2.

(The pages referred to follow:)

SECTION 2—ELECTRIC POWER INDUSTRY

This activity includes the Commission's responsibility for the regulation of the investor-owned segment of the electric power industry, except for the licensing of non-Federal hydroelectric projects which is discussed in section D.

Experience during the past year, positions and salaries approved for the current year, and estimates for the budget year are as follows:

Fiscal year	Positions	Salaries
1962	144	$1,126,683
1963	178	1,397,700
1964	216	1,768,500

We are requesting 38 additional positions for fiscal year 1964, 30 for the regulation of rates, 5 for the enforcement of uniform accounting, and 3 for interconnection and coordination studies. Summary tabulations showing workload and/or position requirements in support of the positions estimated for fiscal 1964 appear later in the budget estimate following the introductory statement for each activity.

The Commission's budget request reflects the vigorous leadership it is now exercising in encouraging greater economy of operation in the electric power industry and our increased caseload as we begin to exercise our responsibility to regulate interstate wholesale rates and services. It is anticipated that new cases received or started in fiscal 1964 will exceed the current year total by over 15 percent, and that the total workload will increase by about 21.1 percent. Total completions projected for the budget year are up 30.9 percent compared to that estimated for fiscal 1963.

The electric power industry is the largest industry in the Nation and a cornerstone in the economy of the country. Its stimulation and expansion, and the impact the Commission can make on the efficiency of its operations, are a matter of major national concern. Congress looks to the Federal Power Commission to regulate the interstate aspects of the electric power industry and provide information on all aspects of the industry. The Commission's appropriation request is for the funds to carry out this job vigorously and effectively.

INVESTOR AND NON-INVESTOR-OWNED PROJECTS

Mr. THOMAS (reading):

This activity includes the Commission's responsibility for the regulation of the investor-owned segment of the electric power industry, except for the licensing of the non-Federal and hydroelectric projects which is discussed in section (d).

You caused me a lot of uncomfortable jumping around. What did you mean by "investor owned"?

Mr. SWIDLER. This includes interconnection studies, power survey, what we call corporate regulation, security issue jurisdiction, jurisdiction over interlocking directorates.

Mr. THOMAS. It says "except for the licensing of non-Federal hydroelectric projects."

Mr. SWIDLER. I stated what it included.

Mr. THOMAS. What is the exception?

Mr. SWIDLER. The licensing function is discussed separately, the entire licensing function.

Mr. THOMAS. What are the exceptions to the jurisdiction in licensing?

Mr. SWIDLER. It broadly covers the whole private industry.

Mr. THOMAS. There are some instances in the Rivers and Harbors Division and the Interior Department.

Mr. SWIDLER. Non-Federal are all under our jurisdiction.

Mr. THOMAS. It states, "except for the licensing of non-Federal hydroelectric projects." What are they?

Mr. SWIDLER. I think we are not reading it the same way. What we intended to say is that we are discussing in section (d) the subject of licensing of non-Federal hydroelectric projects.

Mr. THOMAS. I am reading from the top of page C–1. That is your opening statement. It gave me a lot of trouble. It is apparently giving you some.

Mr. SWIDLER. I am reading it. We are trying to say that under the next tab, non-Federal projects, we discuss our licensing functions. We are not discussing it under this tab.

Mr. THOMAS. What are those projects?

Mr. SWIDLER. The Nez Perce-High Mountain Sheep type of thing. They are built by private companies, municipal systems, everything except the projects built by the Bureau of Reclamation. We say "non-Federal" because some licensees are public systems. For instance, Seattle is a licensee, and Tacoma is a licensee, and Arizona Power Authority is one.

Mr. THOMAS. Those are Interior projects?

Mr. SWIDLER. No; public agencies of the State or cities. It would be simpler if we could say regulation of private licensee but this would not be accurate.

With respect to licensing we control——

Mr. THOMAS. How about the investor-owned segment of electric power?

Mr. SWIDLER. I don't know whether you could call Seattle investor owned, or the Arizona Power Authority. I don't know how we can better state this.

Mr. THOMAS. The terminology threw me a curve.

Mr. JONAS. Off the record.

(Discussion held off the record.)

Mr. O'CONNOR. Licensing is a separate section. Statistical and rate functions have to do with the noninvestor owned.

Mr. Ross. I think you could have some organizations not investor owned who might become subject to our jurisdiction if they are involved in the resale of power on a wholesale basis.

Mr. THOMAS. A city or a wing of a State?

Mr. Ross. Or a co-op.

Mr. THOMAS (reading):

Experience during the past year, positions and salaries approved for the current year, and estimates for the budget year are as follows—

And then you show 144 jobs in 1962, 178 in 1963, 216 in 1964.

We are requesting 38 additional positions for fiscal year 1964, 30 for the regulation of rates, 5 for the enforcement of uniform accounting, and 3 for interconnection and coordination studies.

We had 70 for that, did we not? We show only three of them here.

I assume when you finish that power study you will not need those 70 people. Is that true?

Mr. SWIDLER. When we finish the power survey we will transfer many of those people to other activities.

Mr. THOMAS. You are going to need them for activities other than the power survey?

Mr. SWIDLER. The power survey should not be regarded as one shot. Conditions will change rapidly and nothing is more certain than that any study, looking to the future, will become obsolete as conditions change.

Mr. THOMAS. That is why the study. You have to keep it current, make plans this year, tear them up, and start over again next year and make other plans.

Mr. SWIDLER. We should keep in touch with the progress and technology of the industry, and I think continue to exert the Commission's leadership, influence, and direction toward a thoroughly integrated power system in this country, producing power as cheaply as it can be done and making as much of a contribution to low-cost energy sources as improved technology permits.

REGULATION OF RATES

Mr. THOMAS. Regulation of rates. This includes rate filing, rate cases, and rate investigations.

In 1962 you had 15 positions. In 1963 you have 25 positions. In 1964 you show 55 positions.

Except for routine rate-filing work, there was little activity in either rate cases or rate investigations in recent years until the present members of the Commission took office in the past 18 months.

Insert pages C–3, C–4, and C–5 in the record.

(The pages referred to follow:)

A. REGULATION OF RATES

This function includes rate filings, rate cases, and rate investigations.

Positions during the past year, estimated for the current year, and requested for the budget year are as follows:

Fiscal year:	*Positions*
1962	15
1963	25
1964	55

Except for routine rate-filing work, there was little activity in either rate cases or rate investigations in recent years until the present members of the Commission took office in the past 18 months. Plans for the effective exercise of our responsibility for electric rate regulation began at once. The first move was to transfer the electric rate staff, which consisted of a total of four people, from the former Bureau of Rates and Gas Certificates where it was submerged within our natural gas organization, to the Bureau of Power where a new Division of Rates and Corporate Regulation was formed. We found that many if not most of the rates subject to our jurisdiction were not even on file with the Commission and the Commission took action to require the electric utilities to file these rate schedules, which are now being received by the hundreds. We are revising our rules to require electric companies to support these rate filings with cost information to facilitate meaningful Commission review. With these and other actions, by 1964 the groundwork will be complete for the beginning of a comprehensive exercise of our rate regulation responsibility. The essential ingredient is of course the staff to do the work. In 1949, when the industry was about one-third the size to which it has now grown, a staff of about 38 was devoted to electric rate regulation (over 50 percent more than our present staff) and the level of activity at that time was in itself totally inadequate to carry out FPC's responsibilities. The flow of power across State lines has almost tripled in the last decade, from 42 billion kilowatt-hour a year in 1950 to 113 billion in 1961. The National Power Survey will accelerate this trend. The electric rate regulation staff must be rebuilt quickly and strongly if the Federal Power Commission is to shoulder its electric rate regulation responsibilities.

The staff of 55 requested for 1964 will take responsibility for regulating in the public interest the interstate wholesale rates of the largest industry in the United States with 211 million kilowatts of capacity, close to $70 billion of assets, and revenues of over a billion dollars a month. A continuation of the failure of the Commission to exercise its rate regulation responsibilities could have serious consequences. We are entering an era in which electric power can be produced abundantly and at reduced cost from interconnected power pools covering many States. It is essential that power from these tools be made available at wholesale at reasonable rates, and with assurance of supply to the many small utilities both publicly and privately owned whose service areas are not large enough to justify large economical generation of their own. We are seeking the staff to perform that essential function. The absence of assurance of such protection by the FPC will encourage the creation of relatively uneconomic sources of power supply for the smaller entities in the industry. This trend already exists and will continue and accelerate in the absence of competent exercise by the FPC of its rate regulatory jurisdiction.

Rate filings

Actual workload for 1962 and anticipated workloads for the current year and budget year, together with projected filing completions, are as follows:

Fiscal year	On hand 1st of year	Number received	Workload	Number completed	On hand end of year
1962	174	477	651	576	75
1963	75	1,300	1,375	1,200	175
1964	175	1,500	1,675	1,600	75

These workload figures show increases in 1964 over the current year of 15.4 percent in new receipts, 21.8 percent in total workload, and 33.3 percent in total filings processed. We believe these workload estimates are conservative since the first half of 1963 we had received more than 1,100 filings.

Many factors underlie the increase in rate filings from 1962 to 1964. The most important of these is the Commission's program to enforce filing requirements under the Federal Power Act. Too, the industry is becoming more interstate in character and thus more rates are subject to our jurisdiction. Of particular importance is the increase in number and capacity of interstate interconnections to form new and expanded power pools which the Commission's national power survey is encouraging and these filings are of course quite complex. Under these conditions, rate filings are not only multiplying in number but require more intensive analysis as well.

Regardless of the size of the filing workload, the Commission must act within 30 days of the receipt of a rate change filing to exercise its suspension power. It is, therefore, essential that sufficient personnel be available to assure timely analysis and recommendations to the Commission. The number of cases on hand at the end of the year should be held to a reasonable level, generally comprising less than 30 days' processing time.

Mr. THOMAS (reading):

Rate filings: Actual workload for 1962 and anticipated workloads for the current year and budget year, together with projected filing completions, are as follows.

On hand the first of the year, you had 174; you received 477; you completed 576, and carried over to the next year 75.

Just how serious is this? How much work does it entail? Of these 576 cases that you completed, how many were decided by the staff and how many went to Commission hearings? How many major companies do you have in this field of electrical power, and what is the total number of companies?

Mr. SWIDLER. That is a more complex question than you might think, Mr. Chairman. The Commission has never made clear to the industry what companies it thinks it has jurisdiction over. The question how far the Commission's jurisdiction extends is a fairly complex question.

Mr. THOMAS. Let us turn to D–2, under "Licensing," and maybe we can figure out from the table the answer to the question.

NON-FEDERAL HYDROELECTRIC PROJECTS

Insert pages D–1, D–2, and D–3 in the record, under "Licensing."

(The pages referred to follow:)

SECTION 3. NON-FEDERAL HYDROELECTRIC PROJECTS

This activity includes work performed under part I of the Federal Power Act, including licensing, supervision of licensed operations, headwater benefit determinations, and licensed project accounting.

Experience for the past year, positions and salaries approved for the current year, and estimates for the budget year are as follows:

Fiscal year	Positions	Salaries
1962	178	$1,384,261
1963	191	1,482,800
1964	199	1,611,300

The increase in staff of eight positions for this activity will be used to implement our program for speeding the disposition of permit and license applications.

The Federal Power Commission is the custodian of the Nation's hydroelectric resources, with an obligation to assure that they are used in the national interest. Every hydroelectric project of substantial size—except those built by the Federal Government—requires a license from the Commission. The Commission must insure that licensed projects fit into a pattern of effective, comprehensive development of the Nation's water resources and must process license applications with dispatch in order that those projects which are in the public interest can stimulate our economy and add needed capacity to our Nation's power supply.

Pending applications for hydroelectric licenses involve construction costs of approximately $1.8 billion. The supervision of existing licenses presents a steadily increasing workload. The determination of headwater benefits by the Commission must be accelerated. The license project accounting workload is at an alltime high of over 400 cases on hand at the start of the current fiscal year.

In order to cope with this growing workload, and to solve the many and varied problems facing the Commission in this area, it is essential that we have the small increase in staff which we are requesting.

A. LICENSING

This work consists of three principal operations: (1) Processing of permit and license applications, involving by far the largest amount of manpower; (2) unlicensed project investigations; and (3) declarations of intention. The last two operations are concerned with the determination of the Commission's jurisdiction over existing and proposed hydroelectric projects, respectively. The licensing activity also includes the processing of power site land matters and the maintenance of current information on existing and potential water power resources.

The workload and positions during the past year, approved for the current year, and anticipated for the budget year are as follows:

Fiscal year	Workload units on hand 1st of year	Workload units received	Total workload	Workload units completed	Positions	Workload units on hand end of year
1962	203	116	319	109	91	210
1963	210	138	348	146	99	202
1964	202	165	367	160	107	207

The increase of eight positions for fiscal year 1964 is required to expedite pending applications and to process an expected increase in filings resulting from the investigation of unlicensed projects discussed in detail later.

The above figures show an increase of 19.6 percent in new cases in fiscal 1964 over the current year. The increase in positions requested amounts to 8.1 percent.

1. Processing of permit and license applications

This activity includes the processing of applications for preliminary permits and licenses for new construction, and amendments, and other changes in existing permits or licenses. Workload experience in the past year and workload

and completions projected for the current year and the budget year are shown in the following table:

Fiscal year	On hand 1st of year	Received during year	Total workload	Completions during year	On hand end of year
1962	154	108	262	102	160
1963	160	126	286	126	160
1964	160	152	312	136	176

During the past 16 fiscal years, the operating capacity under license has increased 4 times from about 4 million to 16 million kilowatts. The ultimate capacity under FPC license has increased more than fourfold from about 5½ to more than 25 million kilowatts. During the past 10 fiscal years, the ultimate capacity applied for has averaged 4.6 million kilowatts per year, varying from 1.9 to 6.5 million kilowatts per year. Some 6.9 million kilowatts are now under construction or will be under construction by June 30, 1963. The projects constructed under FPC license constitute an important and growing development of the Nation's hydroelectric resources.

There were 160 applications pending at the start of the current fiscal year. Fifteen of these were for permits, 59 for major licenses, 69 for amendments, and 17 for other purposes.

Mr. THOMAS. Certainly you will not have any more rate cases than you have licenses, will you?

Mr. SWIDLER. The two are not really related, because there are an awful lot of companies that operate in areas where there are no hydro possibilities. So, actually our licensing work is limited pretty much to areas where there are good power streams, but rate regulation covers all of the interstate power companies.

Mr. THOMAS. It covers them all. It does not matter whether the juice is produced by waterpower, coal, or whatnot. You have jurisdiction if they go into interstate commerce.

Mr. SWIDLER. If they go in interstate commerce, yes, sir.

Mr. THOMAS. They will have to have a license, will they not, regardless?

Mr. SWIDLER. They do not need a license to go into interstate commerce. There is a big difference between our gas statutes and our power statutes. Under the Natural Gas Act, before a pipeline can be built it comes to us to be certificated. This is not true of the power systems. They build the facilities without need for our approval, and you do not always know how the facilities will be used or what companies are involved in interconnections.

Mr. THOMAS. Let us stay with power now. Just what activities of the power companies are certificated?

Mr. SWIDLER. I do not recall that they require any certificates for any of their activities. There is no certificating function.

Mr. THOMAS. Not even for a hydroelectric project?

Mr. SWIDLER. Except on hydro licenses: yes, sir.

Mr. THOMAS. What part of your total is hydro and what part is steam, let us say?

Mr. SWIDLER. The fact that a licensee operates a licensed project does not necessarily make that company subject to our rate regulation.

Mr. THOMAS. What does, then?

Mr. SWIDLER. The sale of the output in interstate commerce.

Mr. THOMAS. That is it, exactly.

Mr. SWIDLER. At wholesale. This is not always easy to determine.

Mr. THOMAS. If a power company is a steampower company and is engaged in interstate commerce, you regulate its rate but you do not have to put it in business with a license. Is that correct?

Mr. SWIDLER. That is right.

Mr. THOMAS. Suppose it is a hydroelectric and it does no interstate commerce. You do not have to certificate it and you do not fool with its rates?

Mr. SWIDLER. We have to license the hydro project.

Mr. THOMAS. Even though he is not engaged in interstate commerce?

Mr. SWIDLER. Yes.

Mr. THOMAS. If it is built upon a stream that can float a log——

Mr. SWIDLER. Which is susceptible of navigation by judicial standards. We have taken the position that if the output is sold in interstate commerce, the use of the site must be certificated; licensed, that is to say.

Mr. THOMAS. Give us a breakdown, which I cannot find in here, of your total number of units or installations—how many hydro, how many steam, and what number you certificate, what number you do not certificate, and then the sum total engaged in interstate commerce where you regulate them. Those are two sets of figures. Can somebody pull those figures out from the figures presented here?

Mr. SWIDLER. May I say to you, Mr. Chairman, we are now engaged in the Bureau of Power in working up a list of companies that we think are under our jurisdiction for rate purposes. This involves some fairly complex questions, and we are not yet ready to release that list. I can give you a round number, if you like.

(Off the record.)

PRIVATE POWER INDUSTRY SUBJECT TO FPC REGULATION

Mr. THOMAS. What part of the total power supply in the United States is not subject to the jurisdiction of the Commission for rate purposes?

Mr. SWIDLER. If I am correct, Mr. Chairman, in my thinking about what constitutes engaging in interstate commerce, I would say that the great bulk of the private industry, perhaps 90 percent of it, is engaged in interstate commerce and is subject to Federal Power Commission regulation.

Mr. THOMAS. Is there a company in Texas subject to the jurisdiction of the Federal Power Commission?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Which one?

Mr. SWIDLER. Southwestern.

Mr. THOMAS. Where is it located?

Mr. ROSS. New Mexico and Texas.

Mr. THOMAS. Around El Paso?

Mr. O'CONNOR. The panhandle.

Mr. THOMAS. Are there any other Texas utilities under your jurisdiction?

Mr. O'CONNOR. Yes; Gulf States Utilities, which operates near the Texas gulf coast in the Beaumont area.

Mr. THOMAS. Does that go into Louisiana?
Mr. O'CONNOR. Yes.
Mr. THOMAS. What about the Rio Grande Valley?
Mr. O'CONNOR. The Central Power & Light Co.
Mr. THOMAS. Are their rates subject to your jurisdiction?
Mr. O'CONNOR. Their rates for export are.
Mr. THOMAS. That is only the export rate when it crosses the river. What about the Dallas Light & Power?
Mr. SWIDLER. I do not know. I cannot answer that.
Mr. O'CONNOR. No.
Mr. THOMAS. Houston Light & Power?
Mr. O'CONNOR. No.
Mr. ROSS. What has been a public utility is in process of change. In this interconnection program which private utilities are undertaking, what was heretofore not a public utility may well be a public utility.
Mr. THOMAS. Your study does not make them a public utility if they do not join up with the grid?
Mr. SWIDLER. No, sir. It may take a good bit of litigation yet to demonstrate just where this line is. The Commission in the past has not always asserted its jurisdiction, and a good many companies which were clearly subject to its jurisdiction have not filed their rates with the Commission. There are many cases where there was no effort to demonstrate or exercise jurisdiction.

LICENSING NON-FEDERAL HYDROELECTRIC PROJECTS

Mr. THOMAS. Go back to your licenses. In 1962 you started off with 203 cases.
Mr. SWIDLER. On what page are you, sir?
Mr. THOMAS. That is "Licenses," under D–2. You completed 109 in 1962 and carried over 210, with 91 jobs. What part of that workload of completed cases, 109, were handled by the staff? What part of the 109 went to a hearing before the Commission?
Mr. SWIDLER. All were items that required staff work but they were all considered and decided by the Commission. Three required formal hearings before an examiner.
Mr. O'CONNOR. By hearing before the Commission, do you mean an oral hearing or that the Commission participated in a hearing?
Mr. THOMAS. Written, oral, whatever you want to call it.
Mr. SWIDLER. We frequently have informal reports from our staff on the progress of their work. In a number of these situations, we would have directed it in an informal way on the basis of informal reports, without its having been necessarily the subject of a hearing. Here, too, if there are no objections, if the project seems to be a sound project, if the other Federal agencies involved are satisfied that fish and wildlife interests are protected, that other interests are protected, these things are worked out without the necessity of elaborate and expensive hearings.
Mr. THOMAS. On page D–1, non-Federal hydroelectric projects, your big workload, you had 178 positions in 1962, 191 in 1963, and for 1964 you request 199. We have already followed that with D–2, your licensing, and D–3, also.

UNLICENSED PROJECT INVESTIGATIONS

On "Unlicensed project investigations," let us put this table in the record.

(The page referred to follows:)

2. *Licensed project investigations*

Workload experience for the past year, estimated for the current year and projected for the budget year are shown in the following table:

Fiscal year	Cases on hand 1st of year	Cases initiated in year	Total workload	Completions during year	Cases on hand end of year
1962	48	6	54	6	48
1963	48	10	58	17	41
1964	41	12	53	23	30

We are not requesting an increase in the staff for unlicensed project investigations, in the belief that there will be a large measure of voluntary compliance with our new program.

Section 23(b) of the Federal Power Act, as amended August 26, 1935, provides in substance that no non-Federal entity may construct, operate, or maintain any dam or powerhouse for the purpose of developing electric power across any navigable water of the United States or upon lands of the United States or except under a permit or valid existing right-of-way granted prior to June 10, 1920, or a license under the Federal Power Act.

There are many existing hydroelectric projects that are still operating without a Federal Power Commission license in violation of the Federal Power Act. It is the Commission's responsibility to insure that these projects are brought under license in order to achieve the objectives of the statute.

Mr. THOMAS (reading):

Workload experience for the past year, estimated for the current year and projected for the budget year are shown in the following table.

In 1962, cases on hand, 48. You initiated six during the year. You disposed of 6 and carried over 48. You had 17 jobs in 1963. Where are your salaries on this activity?

We are not requesting an increase in the staff * * *

How many people do you have for this activity?

There are many existing hydroelectric projects that are still operating without a Federal Power Commission license in violation of the Federal Power Act. It is the Commission's responsibility to insure that these projects are brought under license in order to achieve the objectives of the statute.

You say some of these projects are now 38 or 39 and even 40 years of age.

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. They never have paid any fees?

Mr. SWIDLER. No, sir.

Mr. THOMAS. What does the company tell you when you have tried to collect a little money from them?

Mr. SWIDLER. They say, "We don't think we are on a navigable river."

Mr. THOMAS. Do you read to them the Supreme Court case that after a flood if it floats a log, they are under your jurisdiction?

Mr. SWIDLER. We try to do that. Sometimes they say they have special statutory authority. They may have some special act of Con-

gress. There are a variety of reasons that they may give to us why they do not think they need to file.

Mr. THOMAS. Do you have a yardstick on fees that you collect?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. Based on what?

Mr. SWIDLER. It is based upon generating capacity, horsepower.

Mr. THOMAS. Does the statute set out the fees?

Mr. SWIDLER. No, sir. We are about to revise the fees now and increase them.

Mr. THOMAS. I notice you are going to collect about $4 million in 1964.

Mr. SWIDLER. This is not fees. The $4 million is headwater benefits.

Mr. THOMAS. Yes, headwater benefits. How much will you collect for this?

Mr. SWIDLER. My recollection is about a million and three-quarters in 1963 and $4 million in 1964.

COLLECTIONS FROM LICENSEES

Mr. THOMAS. Put page D–12 in the record, on collections from licensees.

(The page referred to 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 included for the cost of administering part I of the act are shown in the following table.

	Total	Administration of pt. I
Fiscal year 1962, actual	$2,317,000	$1,165,000
Fiscal year 1963, estimated	2,142,000	1,389,000
Fiscal year 1964, estimated	2,190,000	1,460,000

The Commission is acting to increase the assessment of annual charges under licenses (other than State and municipal) for projects of more than 100-horsepower installed capacity to make sure that they completely cover the actual costs of administering part I of the act. 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.

Mr. THOMAS (reading):

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 included for the cost of administering part I of the act are shown in the following table.

Administration of part I, $1,165,000 in 1962. It looks as if you collect about $1.1 million. Is that correct?

Mr. SWIDLER. As you know, there are many kinds of collections that we make, but for administering part I, we will get almost a million and a half in 1964.

Mr. THOMAS. From licensees?

Mr. SWIDLER. From licensees, $1,460,000. We also collected amounts for the Indian trust fund.

Mr. THOMAS. What part do they get, the same part the State gets?

Mr. CASHELL. No, sir. They get just what is designated for use of Indian lands.

Mr. THOMAS. How much is that? Normally, the States get about a third, do they not?

Mr. TRAINOR. Thirty-seven one-half percent.

FEDERAL RIVER DEVELOPMENT PROJECTS

Mr. THOMAS. Let us take a look at Federal projects, river basin surveys. Put E–1 and E–2 in the record.

(The pages referred to follow:)

SECTION 4—FEDERAL RIVER DEVELOPMENT PROJECTS

This activity relates primarily to the Commission's responsibilities in connection with the power aspects of river developments projects proposed by the Corps of Engineers and the Bureau of Reclamation.

Positions and salaries during the past year, approved for the current year, and requested for the budget year are shown below:

Fiscal year	Positions	Salaries
1962	44	$363,198
1963	48	412,500
1964	48	426,500

No increase in positions for this activity is requested for fiscal year 1964.

Under 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 with respect to safeguarding the hydroelectric power potential of such projects. Similarly, the Commission cooperates with the Bureau of Reclamation and makes recommendations, under provisions of section 4 of the Federal Power Act, with respect to reclamation projects.

The Commission also reviews proposals by the Department of the Interior for sale of hydroelectric power for projects constructed by the Corps of Engineers. This review provides the basis for Commission approval of rates called for under the Flood Control Act of 1944 and other acts.

Other related work under this section includes cost allocations, participation in interagency activities, and response to requests for information and assistance from Congress and from other agencies. The allocation work provides a basis for approval of Federal project power rates and cost information needed in making headwater benefit determinations.

COOPERATIVE STUDIES AND RECOMMENDATIONS

The Commission participates in the formulation of Federal reservoir projects by serving, with respect to power features, in the role of power consultant and adviser to the construction agencies which have primary responsibility for detailed investigations and construction of the projects. Based on these cooperative studies, the Commission formulates its recommendations with respect to power facilities in Federal plans for river basin development.

The workload for cooperative studies and recommendations under the Flood Control and River and Harbor Acts and the Federal Power Act is as follows:

Fiscal year	On hand 1st of year	Units received	Workload	Units completed	On hand end of year
1962	73	42	115	57	58
1963	58	62	120	40	80
1964	80	45	125	40	85

A workload unit is defined as an investigation or study undertaken by the Departments of the Army or Interior, in which the Commission cooperates. Thus, the Commission's workload on Federal project investigations is geared primarily to activities of the Corps of Engineers and the Bureau of Reclamation. A workload unit is considered as completed when a report of investigation has been completed by the construction agencies, and transmitted to the Commission and formal comments and recommendations have been made thereon to the reporting departments.

Mr. THOMAS. You had 44 jobs in 1962, against 48 in 1963 and 48 in 1964. This does not include your regional offices?

Mr. SWIDLER. Yes, sir, it does.

Mr. THOMAS. This is the total expense including your regional offices. What part of these 48 jobs are in the District of Columbia and what part are in the field?

Mr. SWIDLER. I think most of them are in the field. This is on a functional basis. The work is divided between the field and the District.

Mr. THOMAS. You have about 160 people in the field. Are they separate and distinct from these?

Mr. SWIDLER. No, sir. They include some of these. Some of the work in the field is on Federal projects, some in connection with licensed projects, some on various other power matters.

BONNEVILLE POWER RATES

Mr. THOMAS. Next to the bottom paragraph on E–1:

The Commission also reviews proposals by the Department of the Interior for sale of hydroelectric power for projects constructed by the Corps of Engineers. This review provides the basis for Commission approval of rates called for under the Flood Control Act of 1944 and other acts.

Does this cover the Bonneville rates?

Mr. SWIDLER. Yes, sir.

Mr. THOMAS. You stated this morning that some of those utilities out in that section of the country had to raise their rates to meet a break-even basis or else they would be in trouble.

Mr. SWIDLER. I said Bonneville either had to get more money or raise its rates; yes, sir.

Mr. THOMAS. Do you mean by that, those utilities out there now are operating on a losing basis?

Mr. SWIDLER. Bonneville is not presently making its costs.

Mr. MORGAN. May I comment on that? Bonneville over a period of years has built up about a $70 or $75 million cushion representing the amount by which they were ahead of their payout requirements for the repayment of the investment.

Mr. THOMAS. What was the total investment cost? It was about 21 or 22 years ago that it was built.

Mr. MORGAN. When I refer to Bonneville, I am not referring to Bonneville Dam. I am referring to the Bonneville Power Administration, which is the marketing agency for all the Federal dams in the Columbia Basin. The original dams were built at depression construction prices or costs. They were very economical, enabling Bonneville to establish a basic rate of $17.50 a kilowatt-year. The more recent dams built around the time of the Korean war, and since, have been much more expensive to build. We have, of course, put a strain on that low kilowatt-year price, with the result that in the last 4 years, I believe, the cushion of $75 million has been depleted and probably will be totally depleted in about 2 more years. Bonneville is not behind schedule on payout and is not operating in the red, but the cushion is disappearing. If a way to secure additional revenues is not found in the next 2 years, they may be faced——

Mr. THOMAS. Have they raised their rates in the last 15 or 20 years?

Mr. MORGAN. The rate has never been changed since it was originally established. If additional revenues are not discovered, they may be forced, not as a result of mismanagement or anything of that kind, but by the high cost of the recent construction, to increase the original rate.

Mr. THOMAS. It is remarkable they have not raised their rates in 25 years.

Mr. JONAS. Can the Commissioner tell me anything else that has not increased in the last 15 years?

Mr. MORGAN. No, sir.

Mr. JONAS. Power continues to be the best bargain the American consumer has. Is that not true?

Mr. MORGAN. I do not know of any better, sir.

Mr. BOLAND. What do you expect?

Mr. MORGAN. There has been quite a controversy about that. There is a great surplus of power that can be produced in the summertime, because of the annual summer runoff of the river. This is not needed or salable in the Pacific Northwest——

Mr. THOMAS. What about the $75 million high-line down the coast?

Mr. MORGAN. The peak demand for power in the Northwest is in the wintertime. The peak demand for power in California is in the summer.

Mr. THOMAS. They are going to get together, are they not?

Mr. MORGAN. A plan to do this on an orderly basis which satisfies the mutual demands of both sections must be worked out before it can be done.

Mr. BOLAND. This is the only way in which we will get additional revenues from Bonneville, apparently.

Mr. MORGAN. It seems to be the only way in sight now.

Mr. THOMAS. You have a fast-growing country out there. You can raise the rates a little bit and keep everybody happy and keep going, too.

Mr. MORGAN. It will make people happier in other regions than in the Northwest, sir.

Mr. BOLAND. Particularly New England.

Mr. O'CONNOR. I would like to add, gasoline has not increased in price in the last 30 years.

Mr. JONAS. Gasoline has not? I pay 37 cents a gallon for it.

Mr. O'CONNOR. The tax has increased, not the price of gasoline.

(Off the record.)

Mr. JONAS. Actually, gasoline is cheaper now than it ever has been, if you eliminate the tax. Is that not true?

Mr. O'CONNOR. It varies, but I would say it is considerably better. On the combination of price and quality, the consumer is paying less.

Mr. JONAS. If you could get rid of that old item of tax, we could really get the cost of living down.

(Off the record.)

Mr. THOMAS. This is all good reading, gentlemen. We have had it year in and year out, but it is changed a little bit. It is still interesting.

COORDINATION IN RIVER BASIN DEVELOPMENT PLANS

Mr. BOLAND. I am looking at the very last page, E–6, "Comprehensive river basin development plans." There is no money in this budget for additional positions in 1965. The Corps of Engineers, as you know, is engaged in this kind of effort also, real comprehensive river basin development plans. You are not expecting to overlap with the corps, are you?

Mr. SWIDLER. We would try not to make this a competitive activity at all, but only to have within our own organization some standard. As it is now, when the license application is filed, we have no plan of development to measure the application against to know whether it fits with a comprehensive development of the river or not. Frequently we do not put in testimony on that ourselves because we do not have the overall basin plans it is related to. Other agencies of the Government do not come in with testimony. So, there are big holes in the record. If we are to plug the holes and be able to find the right answer on the record, we must have greater competence on river basin development within our own organization.

I want to assure you, Mr. Boland, that we will make full use of the studies of the Corps of Engineers as well as of the Bureau of Reclamation and other Federal construction agencies. This is for the most part an office study based upon the work done by the other agencies.

Mr. BOLAND. Do you find their plans are just as comprehensive as yours would be in a particular river basin?

Mr. SWIDLER. I do not know what we will find, but I suspect we will find some inconsistencies among the comprehensive plans prepared by different agencies, depending upon their institutional problems.

Mr. THOMAS. Mr. Boland, you work with this subject all the time. Any way you look at it, by any measurement you want to use, you have Interior, this group, and then the Corps of Engineers doing identically the same thing in the same area, working on the same stream.

Mr. BOLAND. One of the questions is whether or not they do the identical work. I presume they do, because the plans of the Engineers are comprehensive, certainly. They take in the question of the amount of power and the power potential of a river basin. I presume you use their studies?

Mr. SWIDLER. Yes, sir, we will make full use of their studies.

ADMINISTRATION

Mr. BOLAND. Mr. Reporter, put in page F–1, under administration.

(The page referred to follows:)

SECTION 5—ADMINISTRATION

This activity includes the work of the members of the Commission and their immediate staffs, the Office of the Executive Director and the Office of Personnel. Budget and fiscal management; organization and methods studies and management analysis; and library, procurement, property, records, messenger and related administrative services performed by the Office of Administration are also charged to this activity.

The following tabulation shows the staff and salary costs for administration for the past year, the current year and the budget year and their relationship to Commission totals.

Fiscal year	Positions			Salaries		
	Total	Administration	Percent	Total	Administration	Percent
1962	963	78	8.1	$7,332,545	$581,189	7.9
1963	1,178	86	7.3	9,070,000	714,300	7.9
1964	1,299	86	6.6	10,395,000	740,000	7.1

Although there is an increase in the overall Commission positions from 1,178 to 1,299, no increase in positions is proposed for administration for the fiscal year 1964.

Mr. BOLAND (reading):

Although there is an increase in the overall Commission positions from 1,178 to 1,299, no increase in positions, is proposed for administration for the fiscal year 1964.

OTHER OBJECTS OF EXPENSE

Let us turn to G–1, Other Objects. The increase, as you have indicated, in personnel is $1,325,000.

In Rent, Communications, and Utilities, there is an increase of $142,600,

Insert in the record G–1.

(The page referred to follows:)

Summary of other object classes

	Estimate, 1963	Estimate, 1964	Increase (+) or decrease (−)
11 Personnel compensation	$9,070,000	$10,395,000	+$1,325,000
12 Personnel benefits	688,400	787,200	+98,800
21 Travel and transportation of persons	520,000	520,000	----------
22 Transportation of things	28,700	15,000	−13,700
23 Rent, communications, and utilities	217,000	359,600	+142,600
24 Printing and reproduction	117,700	129,000	+11,300
25 Other services	165,000	284,700	+119,700
26 Supplies and materials	97,000	115,600	+18,600
31 Equipment	122,200	118,900	−3,300
Total	11,026,000	12,725,000	+1,699,000

NOTE.—Justification of object classifications are detailed in the following text.

Mr. BOLAND. Why do we have such a large increase in rent and utilities?

Mr. SWIDLER. Of course, with more people, we will need more space. I think the cost of our space is also going up. GSA bills us.

ADP RENTAL

Mr. THOMAS. You have an item, too, for EAM and ADP.

Mr. BOLAND. $160,000 for EAM and ADP.

Mr. PILCHER. We shall find it necessary in 1964 to move a little farther in ADP operations in order to handle the mass of data on the gas industry in connection with the area prices.

Mr. THOMAS. We understand that is the purpose of it. Are you renting it from General Services Administration?

Mr. PILCHER. No, sir. This is rent of automatic data processing equipment.

Mr. THOMAS. General Services will operate it for you, will they not?

Mr. PILCHER. No, sir. We would rent this from whatever supplier meets our bid specifications.

Mr. THOMAS. And you will operate it yourself? You will not use equipment the GSA has?

Mr. PILCHER. No, sir. We will use equipment rented from suppliers, and operate it ourselves.

SPACE RENTAL

Mr. BOLAND. Where is your additional space?

Mr. PILCHER. That is on page G–10.

Mr. BOLAND. Where is the actual physical location of the space?

Mr. PILCHER. Under our procedure, we provide sufficient funds in our budget to pay GSA for whatever space they provide us. It would be in Washington.

Mr. THOMAS. For the first year.

Mr. PILCHER. For the first year. After that, it is included in the GSA budget and we no longer budget for it.

Mr. THOMAS. What are you allowing yourself per square foot for it?

Mr. PILCHER. Six dollars a square foot.

Mr. THOMAS. Which building do you get for this?

Mr. SWIDLER. So far, we have got the cats and dogs on buildings, sir. We are hoping to move most of our staff into the new Federal Building No. 9.

(Off the record.)

Mr. BOLAND. On page G–12, printing and reproduction is up $12,300. The largest increase is in publications. Do you need all these publications?

Mr. SWIDLER. These are the bread and butter of the whole utility and regulatory field, Mr. Boland.

OTHER SERVICES

Mr. BOLAND. Other services are up $119,700. Where is the big jump there? That is the ADP?

Mr. Ross. That is ADP; yes, sir.

Mr. BOLAND. Put in G–15.

(The page referred to follows:)

25—Other services

Item	1962 actual	1963 estimate	1964 estimate
Maintenance and repair of equipment	$7,725	$8,000	$8,000
Construction and alteration	27,276	7,300	7,300
ADP—Consulting and contract service	26,168	118,200	237,200
Service pins and plaques	603	500	500
Security investigations	4,900	11,500	12,500
Health services	6,181	8,300	9,000
Advertising	1,176	1,500	1,500
Hire of laborers	2,145	1,700	1,700
Transfers to other agencies		2,000	
Employees training program	4,637	6,000	6,000
Entertainment expenses			1,000
Total	80,811	165,000	284,700

The amount requested for fiscal year 1964 represents an increase of $119,700 over funds available for fiscal year 1963. The items requiring additional funds are as follows:

An estimated $237,200 will be required in 1964 to meet charges, other than equipment rental, incident to the automatic data processing program. The amount requested will provide the necessary funds to: (a) prepare the physical installation site for an electronic computer, including modification of air conditioning, installation of false flooring, and auxiliary construction ($20,000); and (b) ADP consulting and contract services including the rental of machine time on large electronic computers to process highly involved engineering, geological, and mathematical programs related to the electric power and natural gas areas which are beyond the capacity of the general purpose type computer planned for the Federal Power Commission ($217,200).

EQUIPMENT

Mr. BOLAND. Put pages G–17, 18, 19, and 20 in the record.

(The pages referred to follow:)

31—Equipment

Item	1962 actual	1963 estimate	1964 estimate
Office machines	$21,188	$48,000	$41,000
Office furniture	43,210	31,800	22,900
Filing equipment	6,091	8,900	6,800
Duplicating equipment	8,919	21,000	32,500
Library publications	7,590	7,600	8,100
Miscellaneous	3,932	4,900	7,600
Total	90,930	122,200	118,900

A total of $118,900 is requested for equipment for 1964. This represents a decrease of $3,300 below 1963 requirements. The needs are discussed below in the same order as listed above.

1. OFFICE MACHINES

The sum of $41,000 is requested in 1964 to (a) continue the program of replacing old and wornout typewriters, calculators, and adding machines at

a cost of approximately $22,400 which represents no increase over 1963, and (b) purchase of additional typewriters, calculators, and adding machines, at a cost of approximately $18,600 to meet the needs of the additional staff requested for 1964. Under the established replacement program 43 typewriters, 10 calculators, and 7 adding machines will be purchased as replacements in 1964. To meet the needs of the additional staff for 1964 it will be necessary to purchase an additional 23 typewriters and 15 calculators.

2. OFFICE FURNITURE

A total of $22,900 will be required in 1964 for the purchase of office furniture. This amount will provide for (a) the continuation of the Commission's program for replacement of old and wornout items at a cost of $9,700, and (b) the purchase of furniture for the additional staff in 1964 at a cost of $13,200. Specifically, the amount requested will provide for the purchase of 100 desks ($9,400), and 100 chairs ($3,800).

3. FILING EQUIPMENT

The $6,800 requested for this item in 1964 will provide funds for the purchase and installation of 111 sections of vertical steel filing shelves and constitutes a decrease of $2,100.

The purchase of filing shelves is releasing steel filing cabinets to accommodate the filing of additional material growing out of increased activity both in Washington and in the field, and particularly as relating to rate and licensing matters.

4. DUPLICATING EQUIPMENT

A total of $32,500 is requested for the purchase of duplicating equipment in 1964 and represents an increase of 11,500 over funds available for 1963.

The Commission must have maximum production from its duplicating equipment for the dependable and timely issuance of Commission orders, opinions, rules, notices, briefs, hearing exhibits and decisions, staff recommendations, and required reports. To maintain production schedules, to conserve manpower, and to decrease vital machine "down time" so often costly to the Commission, the public, and the regulated utilities, it is necessary that obsolete duplicating equipment be replaced.

Based on the most urgent need, actual condition, estimated repair costs and the depreciation formula of the Joint Committee on Printing, the following duplicating equipment will be required during the budget year:

(*a*) A small offset duplicator (10½- by 16-inch size) needed to assist with the workload increases assigned to the 14- by 20-inch Little Chief presses ($5,000).

(*b*) A large offset press (17- by 22-inch size) to replace a "Little Chief," 14- by 22-inch size, in continual operation since 1953 ($12,500).

(*c*) A hydraulic lift to handle large skids of paper with a minimum of manpower and less hazard to the plant personnel ($2,000).

(*d*) A small automatic cutter to cut rolls of photostatic prints made on our Reco photocopy machine. This machine will eliminate time-consuming hand cutting ($3,000).

(*e*) A large offset roll film camera (24 by 24 inches) to replace the present camera purchased in 1941, and now in poor operating condition ($10,000).

5. LIBRARY PUBLICATIONS (BOUND VOLUMES)

A total of $8,100 will be required in 1964 to provide for the purchase of bound volumes of timely and essential reference material. This material comprises lawbooks and associated volumes which pertain to such technical subjects as are required in the daily functions of the Commission in supplying information to the Commission and the staff. The amount requested represents an increase of $500 over 1963 requirements and is based on past procurement experience.

6. MISCELLANEOUS

A total of $7,600 will be required for purchase of such miscellaneous items as briefcases, footlockers, wastepaper baskets, bookcases, coatracks; and control panels, wires, separators, bursters, and storage cabinets appurtenant to the additional ADP equipment requested. The amount requested constitutes an increase of $2,700 over funds available for 1963.

OFFICE FURNITURE

Mr. BOLAND. For "Office furniture," you require $22,900. Does this anticipate moving into the new building?

Mr. SWIDLER. Yes, sir. I do not think we contemplate buying ourselves a lot of new furniture. We will move over what we have. We have some expansion.

Mr. THOMAS. You are providing for it in this budget, are you not? How old is your furniture?

Mr. SWIDLER. I do not know. Of course, we are one of the older agencies. Some of it is in pretty bad shape. As far as changing the furniture, that is the least of our problems. Our problem is finding a place to put people and keep them close enough so we can maintain some kind of administrative control. We need to improve our ability to control our staff and, of course, as you all know, it is a much easier thing to do if you have them near you so you can follow up.

Mr. THOMAS. Put your staff over in the new building and leave the Commission over in the old building. Can you do that?

Mr. SWIDLER. You would save 28 positions.

Mr. THOMAS. Leave 78 over in the old building and put the others over there.

Mr. SWIDLER. You would save only 28 positions.

Mr. THOMAS. They are going to do the work, are they not? What about that, Mr. Boland?

Mr. BOLAND. If they agree with it.

Any questions?

Mr. O'CONNOR. Our "Office furniture" budget is down.

Mr. JONAS. That is because you put on all those extra people last year, 215.

Mr. O'CONNOR. The 215 were put on in the 1963 budget.

Mr. JONAS. But 125 went on in 1962.

Mr. O'CONNOR. Yes.

PROGRESS IN HANDLING CASES

Mr. BOLAND. You certainly reduced the workload this year with the additional personnel you received. This was one of the most controversial agencies in the Government. I remember a long article in one of the leading magazines a few years ago about the stacks and stacks of backlog the Commission was faced with, but you are slowly cutting it down, are you not?

Mr. SWIDLER. Yes, sir. I think if you look in a balanced way at what we have done and what is left to do, I hope you will conclude that in the last year we have made reasonable progress for 1 year.

Mr. BOLAND. You cannot do it without staff?

Mr. SWIDLER. We cannot do it without staff. I think on the pipeline side, we are in good shape. I think I told you last year, and I want to tell you now, on the producers side it is a longer haul. We are about midway in it now. It will take us more time to get out of the woods there. I think we are making good progress in a very difficult and new field of regulation, these thousands of independent producers. I think we are not only making progress in ways that show, but I hope also in ways that perhaps are not so apparent. We are deciding cases on a better record. I think we are exploring more of the collateral problems. We have a better feeling for what we are

doing. I hope we will be building better records in the future and be in better command of our performance.

On the power side, I think for the first time, Mr. Chairman and members of the committee, for the first time the Commission is contributing to the power industry and making a contribution to a more effective power system for this country, working in cooperation with the whole industry.

Mr. THOMAS. We have been throwing away a lot of money if you have not made a contribution.

Mr. SWIDLER. Yes, sir. I think when you look back and see what there is to show for it, sometimes you conclude that it is not very much. We started almost from scratch on the matter of jurisdiction over electric power companies on electric rate matters. We started almost from scratch in this whole field of electric rate regulation. I think previously we had accomplished very little under our authority to encourage voluntary interconnections. We are now, I think, laying the foundation for an effective exercise of our functions that will leave something behind us that others can build on.

RECENT INCREASES IN FPC APPROPRIATIONS

Mr. JONAS. I want to read the following figures into the record, from the committee print, which I assume is correct. You have made some progress in getting rid of the workload which had accumulated, but I remind you that this Commission operated in 1954 on a budget of $4,318,000; in 1960 it had $7,218,000; in 1961, $8,163,500; in 1962, $8,793,000; 1963, $10,700,000; 1964, you are asking for $12,675,000. That is moving pretty fast up the ladder.

Mr. SWIDLER. Let me comment on that, Mr. Jonas, because I think maybe there are some important considerations that bear on that which ought to be kept in mind.

In the first place, during a lot of that period, little, if anything, was done on the producer rate problem. There was, until 1954, uncertainty as to whether the Commission had jurisdiction over the producer rates, and the Commission itself disavowed it. Beginning in 1954, this new responsibility was unloaded on the Commission, and I must say it took several years before the Commission girded itself up to discharge that responsibility. We have one entirely new activity that has come into the picture since that time. We are just beginning to put ourselves in position to carry on that activity.

Another thing I think you need to keep in mind is, of course, general inflation and pay increases. These are not comparable figures. They are not people that you have been giving us. They are dollars. As Congress has passed one pay bill after another, the costs have gone up proportionately.

In order to make any kind of showing under the flood of work that came with the passage of the Natural Gas Act, the Commission's power staff was really—decimated is not the word. That is only one-tenth. We were left in some areas of activity with 9 out of 10 people being diverted from power to natural gas work. If we are to discharge the power responsibilities, we must build back that staff.

Mr. JONAS. As Chairman Thomas mentioned this morning, we have given you 335 new people since 1960. That is a substantial number.

Mr. THOMAS. In 5 years, they have an increase of 50 percent in total personnel, which is pretty good. You folks are working at it.

Is there anything further?
We thank you very much. Good luck to you.

WEDNESDAY, JANUARY 30, 1963.

INTERSTATE COMMERCE COMMISSION

WITNESSES

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ERNEST WEISS, ASSISTANT TO THE MANAGING DIRECTOR
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SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	18,257	19,595	21,120
	Positions other than permanent	5		
	Other personnel compensation	54	53	250
	Total personnel compensation	18,316	19,648	21,370
12	Personnel benefits	1,360	1,454	1,574
21	Travel and transportation of persons	1,261	1,311	1,386
22	Transportation of things	19	27	27
23	Rent, communications, and utilities	321	329	357
24	Printing and reproduction	184	213	234
25	Other services	100	103	133
26	Supplies and materials	290	260	276
31	Equipment	221	202	268
	Total obligations	22,072	23,547	25,625

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	2,473	2,467	2,555
Full-time equivalent of other positions	1		
Average number of all employees	2,399	2,426	2,493
Number of employees at end of year	2,438	2,408	2,496
Average GS grade	8.6	8.8	8.8
Average GS salary	$7,601	$8,197	$8,222

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Regulation of carrier rates, practices, operating authorities, and finance	6,708	7,277	7,905
2. Compliance	5,523	5,808	6,280
3. Supervision and analysis of carrier accounting and statistics	2,564	2,778	3,089
4. Supervision and interpretation of tariffs	1,405	1,484	1,569
5. Railroad safety and car service:			
(a) Car service	1,059	1,087	1,174
(b) Railroad safety	1,704	1,816	1,918
(c) Locomotive inspection	1,121	1,216	1,276
6. Executive and advisory functions	916	1,004	1,191
7. General management and administration	1,032	1,077	1,223
Total program costs, funded	22,032	23,547	25,625
Change in selected resources [1]	40		
Total obligations	22,072	23,547	25,625
Financing:			
Reimbursements for emergency preparedness functions (−)			−175
Unobligated balance lapsing	3		
New obligational authority	22,075	23,547	25,450
New obligational authority:			
Appropriation	22,075	22,606	25,450
Transferred to "Operating expenses, Public Building Service," General Services Administration (76 Stat. 728) (−)		−3	
Appropriation (adjusted)	22,075	22,603	25,450
Proposed supplemental due to pay increases		944	

[1] Selected resources as of June 30 are as follows:

	1961	1962	1963	1964
Stores	10	9	9	9
Unpaid undelivered orders	112	153	153	153
Total selected resources	122	162	162	162

Mr. THOMAS. Gentlemen, the committee will please come to order. We have the pleasure of having with us this morning the Interstate Commerce Commission, one of our most distinguished and able commissions and one with which the committee has worked with many years. We are certainly delighted to have with us all these distinguished gentlemen. First, the able and distinguished Chairman, Laurence K. Walrath. Mr. McPherson is not here?

Mr. WALRATH. He is ill. The doctor would not let him come out.

Mr. THOMAS. We have our former colleague and genial Commissioner, Abe McGregor Goff, and Commissioner Charles A. Webb.

Are these all the Commissioners here?

I have a very nice and thoughtful letter this morning from Commissioner Herring. He says:

> I regret that a prescheduled trip in connection with *Ex parte 230, Substituted Service—Charges and Practices of For-Hire Carriers and Freight Forwarders* * * * will prevent my attendance at your subcommittee hearing on the budget request of the Interstate Commerce Commission, Wednesday, January 30, 1963.
>
> It is important that all Commissioners be familiar with the matters contained in our budget request and be present at the time of your hearing. However, I feel I must be absent because of the great importance of this investigation and rulemaking proceeding to all modes of surface transportation.

We regret the Commissioner cannot be here. If that is more important than this, we don't bame him for putting first matters first.

Mr. WALRATH. May I comment on that, Mr. Chairman?

Mr. THOMAS. It might be well to explain where the others are. We have been told the Commission over there does less work than any commission in the Government. How often do you people meet?

Mr. WALRATH. We meet regularly.

Mr. THOMAS. What is regularly? How often is regularly? Once every 2 weeks, once a week, or what?

Mr. WALRATH. The scheduled meetings are once every 2 weeks.

Mr. THOMAS. Once every 2 weeks is a hard schedule, isn't it? I get to my office in the morning at 8:30 and leave in the evening at 7:30 and then work about 2 hours at night. A lot of people in other agencies do the same thing.

Mr. WALRATH. That is our schedule, sir.

Mr. THOMAS. Every 2 weeks?

Mr. WALRATH. No, sir. That is our regular conference. We meet far more frequently.

Mr. THOMAS. How often?

Mr. WALRATH. It would vary from week to week.

(Off the record.)

Mr. WALRATH. Mr. Chairman, will you permit an explanation?

Mr. THOMAS. We are all friends here. You can do anything you want.

Mr. WALRATH. I understood you also had a communication from Commissioner Tucker in conection with the Ex Parte 230 case. Some months ago, the entire Commission officially referred that matter for administrative handling to Commissioners Herring and Tucker. The meeting which they are attending had been set and——

Mr. THOMAS. Where is the meeting scheduled to be held?

Mr. WALRATH. The present one is being held in upper New York, I believe. That was set sometime ago.

Mr. THOMAS. We don't expect the Commission to discommode itself. Mr. Clerk, why was this hearing set for this particular day? Were you advised that five Commissioners would be out of town? Was any complaint registered?

The CLERK. I didn't hear any.

Mr. THOMAS. Your record of attending the hearings over here is none too good, anyway, so this is no different from last year or year before last. There is always some excuse. That is perfectly all right

with us. We can get along without them, just as you can get along without us. So, everybody is happy. If it is a matter of little importance to you, we will treat it in the same manner. You can depend on that.

Mr. WALRATH. Mr. Chairman, it is of utmost importance to us.

Mr. THOMAS. This shows it, doesn't it?

Mr. WALRATH. No, sir. Commissioner Tuggle, who I think always attends here, is hearing a very important accident case in which a number of people were killed and which, under the provisions of the law, we are required to attend to. He is for that reason necessarily absent.

Commissioner Murphy——

Mr. GOFF. Wait a minute. Commissioner Tuggle is down in Florida on that hearing. I wish you would state where they are. They are not in town.

Mr. WALRATH. The accident happened in Florida, Mr. Chairman, so the hearing had to be held there. A number of people were killed in that accident. It is a very serious thing. He is endeavoring to find, for the benefit of the Congress and the public, what was the cause of the collision between a Seaboard Air Line train and a truck.

Commissioner Murphy, the former chairman, is in Europe at the request of the State Department to assist the Common Market interests to understand our rate filings and rate practices.

All of these things had occurred, as I said, before we heard of the hearing date here.

Mr. THOMAS. This time of year is a mighty bad time to go over there.

Mr. WALRATH. I think he has frozen to death, sir.

Mr. THOMAS. He had better wait until July or August, when there will be just as many headaches over there. Maybe they will have it going then. Let's get the Common Market going first. Don't get the engine behind the caboose.

Mr. WALRATH. May I come back——

Mr. THOMAS. You can do anything in here.

Mr. WALRATH. Concerning the frequency with which we meet, I would say, based on personal experience, we meet either as divisions or as a Commission in some fashion almost daily. We do work those hours.

Mr. THOMAS. You mean everybody goes down to the office at least daily?

Mr. WALRATH. Yes, sir.

Mr. THOMAS. Good.

Mr. WALRATH. Unless they are out on assignment. If I would not have to clutter your record in order to do so, I could explain what my typical day is.

Mr. THOMAS. You say anything you want to.

Mr. WALRATH. It is just as you describe it, sir. I never worked as hard in my life, and I enjoy it.

Mr. THOMAS. And get less for it.

Mr. WALRATH. Yes, sir. Just as an introduction to what I would like to say to the committee in behalf of the Commission, it is a real privilege and pleasure to appear before you. This is my maiden voyage as the new chairman of the Commission.

Mr. THOMAS. I am sure you are doing a fine job, and we wish you well.

Mr. WALRATH. Thank you for the kind words at the outset.

Mr. GOFF. Mr. Chairman, could I interrupt a little bit? The chairman touched on a matter a little, and I choose to take the chairman's remarks in the facetious spirit that he said them, because I don't think he means that he understands the only time we work is when we have a formal conference.

Mr. THOMAS. Did I say that?

Mr. GOFF. That was the inference I took.

Mr. THOMAS. I can't help how you take it.

Mr. GOFF. It was more or less a joke.

Mr. THOMAS. We are not going to object to your taking anything in this room anyway you want.

Mr. GOFF. I do not feel that we should sit silent when the inference is that we don't do any work except when we meet in conference. I have served in this place here. I have served as a county and a State officer. I have served in a Government department. I see no change in going over to the Interstate Commerce Commission in the time I have to get down to the office in the morning and the time I go home at night. Particularly with the heavy load of cases that the Commission has now, some of the greatest importance, I can say that I work just as hard or a little harder down there now than I have ever worked before.

Mr. THOMAS. Judge Abe, you have always been a hard worker. We can testify to it. We give you A plus.

Mr. GOFF. Thank you very much, sir. And the others the same way.

GENERAL STATEMENT

Mr. THOMAS. Mr. Chairman, if you have a statement for us, we will be happy to listen or you may insert it in the record and ad lib.

Mr. WALRATH. I will insert it in the record if I may and proceed from there.

(The statement referred to follows:)

Mr. Chairman and members of the committee, the Commission appreciates the opportunity to come here with our staff to discuss with you our financial requirements for the fiscal year ending June 30, 1964. As you will note, the President's budget for the fiscal year 1964 includes for the Commission a total of $25,450,000 and 2,540 positions. This is a net increase of $1,900,000 and 73 positions over the $23,550,000[1] and 2,467 positions available for the current fiscal year.

It should be emphasized at the outset that approximately two-thirds of the $1,900,000 increase over 1963 as requested for 1964 is to cover costs over which we have no direct control. The major item, $1,006,000, approximating 53 percent of the total results from the application of Public Law 87-793 to the current level of employment. In addition, fiscal year 1964 will embrace two extra compensable days at an estimated cost of $145,028, while within-grade salary advancements will account for an additional $124,815. Thus of the increase we seek, only $624,157 of the total, or less than 33 percent of the net budget increase, is for additional positions, increased costs and to improve operational efficiencies. Of this amount, $449,779 is for personal services, and the remainder of the $174,378, while related in part to new personnel, is for increasing operation efficiency and increased costs, as will be explained at the conclusion of my statement.

[1] The $23,550,000 includes a proposed supplemental of $944,000 needed for the cost of pay increases authorized under Public Law 87-793, approved Oct. 11, 1962, the obligation for which has already been incurred for fiscal year 1963.

The 73 additional positions are of utmost importance to fulfillment of Commission responsibilities, as we will seek to demonstrate in the detailed justification. As we move through this, I would welcome any questions concerning the need for these particular positions.

In requesting the additional positions we have been guided primarily by the following significant factors: (a) continuing increase in our formal casework involving motor carriers; (b) unprecedented number of large rail merger cases; (c) substantial increase in court cases involving enforcement as well as defense of Commission orders; (d) increased demand for more current and additional cost data; (e) need to substantially increase our research activity and to provide economic counsel in major cases; and (f) the increased costs which are uncontrollable.

INTERNAL REORGANIZATION EFFORTS

During the calendar year 1962 the Commission continued to take major steps to improve its organization and procedures. After considerable study of proposals made by our staff and outside groups, changes in the field organization of our Bureaus of Safety and Service, Inquiry and Compliance, and Accounts were approved effective July 1, 1962.

The Bureau of Safety and Service formerly conducted field operations within 9 geographical zones, subdivided into inspection areas or work districts under the direction of 30 zone supervisors. These have been replaced by eight districts, each headed by a district director who will supervise the district field staff. At least two supervisors are assigned to each district staff to assist the district director in providing technical advice and to train inspectors. The district directors double as supervisors in the specialty field in which they are qualified, such as locomotive inspection, railroad safety, car service, or signal and train control.

In the Bureau of Accounts, the three former field areas have been replaced by six districts headed by district auditors with duties similar to those previously assigned the three examiners-in-charge. This revised geographical division will provide field supervisors with more opportunity for contact with subordinates and on-the-job supervision.

The realinement in both bureaus is intended to enable field personnel of each bureau to be of greater assistance to the field staff of other ICC bureaus.

The Bureau of Inquiry and Compliance realined the territorial assignments of its special agents to coincide with the eight new Safety and Service districts, since the efforts of such agents are directed primarily toward investgiation of possible violations in the rail and water carrier and freight forwarder fields. Motor carrier investigation activities will continue to be conducted within the 13 field districts of the Bureau of Motor Carriers.

No changes were considered necessary at this time in the geographical divisions of the field operations of the Bureau of Motor Carriers or Bureau of Water Carriers and Freight Forwarders.

Authority formerly delegated to regional attorneys of the Bureau of Inquiry and Compliance and the district directors of the Bureau of Motor Carriers, when they agree, to approve final investigation and criminal prosecution of motor carrier safety violations was broadened to include prosecution of all types of motor carrier violations under part II of the act, subject to routine review in Washington. A procedure also was instituted requiring compliance checks subsequent to issuance of cease and desist orders by the Commission or successful court action to determine whether unlawful activities have been stopped, continued, or resumed.

During the 1962 fiscal year 3 new employee boards—the Finance Review Board, the Operating Rights Review Board, and the Rates and Practices Review Board—were created, making a total of 19 employee boards now in operation. Unlike other employee boards of the Commission, these new boards handle cases which have involved the taking of testimony at public hearings or the submission of evidence by affidavits, as authorized by amendment of section 17 of the Interstate Commerce Act during 1961. The new boards did not become fully operative until January 1962, but during 1962 these boards had disposed of 523 cases with remarkable success, in that the Board decisions have, in most instances, become the final and unchalleged decision of the Commission.

Additionally, certain special steps have been taken. These include such matters as complete review of our mails and files operation resulting thus far in the installation of a centralized messenger service and a significant reduction in the briefing of incoming mail; revision of procedures for preparing and

reproducing Commission reports more efficiently and economically; progress with comprehensive space realinements providing for maximum utilization of staff and space; improved case status and examiner reporting systems; work by our Staff Committee on the Reduction of Paperwork Burden to reduce nonessential reporting; increased automation of operations; efforts by our Staff Committee on Organization, Operation, and Procedures to develop recommendations for expediting and improving proceedings work; follow through on recent changes in bureau field organization; increased delegations; more effective use of Government-owned automobiles; improved information reporting systems, particularly in the proceedings area; and continued emphasis on reducing the proceedings pending load, its age, and time required for disposition.

While the foregoing summarizes the highlights of internal reorganization during 1962, we are under continuing pressure from the Bureau of the Budget to effect further reorganizational changes wherever possible along general lines outlined in the Booz, Allen and Hamilton report, or be prepared to justify why this has not been carried forward. We are, therefore, continuing actively to restudy this through a Commitee of Senior Commissioners, the vice chairman and appropriate staff. A major problem is how to reorganize further without additional expense.

FORMAL PROCEEDINGS

Although favorable results are beginning to appear, it is too soon to determine conclusively the total effect of the organizational and procedural changes which have been made in recent months. It is worthy to note, however, that 7,902 formal cases were closed during fiscal year 1962, the greatest number for any similar period in the Commission's history. This represents a 3.5 percent increase over the number of cases closed during the prior year and nearly a 5 percent increase over fiscal year 1960. At the same time, our pending case docket was reduced from 5,002 cases pending at the beginning of the year to 4,688 at the close of the year, the lowest yearend level in 4 years. The average time required to close a case and the average age of pending cases were also reduced. Cases closed during the fiscal year 1962 required an average of 7.8 months for disposition, compared with an average of 8.8 months the pervious year. All of the foreging improvements have been made notwithstanding a 5.5 percent increase in our caseload receipts during the past fiscal year. However, based on the current rate of receipts, new legislation and the large number of cases of major transportation importance, our ability to continue to keep the pending caseload from growing and improve our docket is seriously challenged.

CASE FILINGS CONTINUE TO INCREASE

Filings of applications for operating rights have increased in the past 5 years an average of 5 percent per year, and it is estimated that filings will continue to increase at the same rate in 1964. However, during the 1961 fiscal year, probably as a result of the economic recession, the number of applications filed for permanent motor carrier operating authority declined. The reduction was partially offset by the filing of 187 applications resulting from Public Law 86-615, effective July 12, 1960, which provides "grandfather" rights for certain motor and water carriers and freight forwarders transporting persons or property in interstate or foreign commerce, within, from, and to Alaska and Hawaii. Since January 1962, a marked increased rate of filing motor carrier applications has been noted; and during the 11 months ended November 30, 1962, the new filings total 4,214, or an average of 383 per month. If this trend continues, it appears that the percentage of increases in filings during fiscal years 1963 and 1964 may be even greater than those experienced in prior years.

ENFORCEMENT THROUGH FORMAL PROCEEDINGS

Due to the Commission's continued emphasis on carrier fitness and its increasing efforts, together with those of regulated carriers, to eliminate unlawful operations in the so-called gray area and other related transportation fields, the number of enforcement proceedings has increased, with the Commission's Bureau of Inquiry and Compliance participating in many of them. Most of these proceedings entail long and highly contested hearings, with many presenting extremely important and complex issues, and will require many more

examiner workdays for processing to final determination than the ordinary application case. And, with continuing pressure by Congress and other outside interests for increased Commission activity in this enforcement area, the need to divert available manpower for the purpose of obtaining prompt decisions in proceedings of this type may be expected to increase.

NEW WORK AREAS

A new and acute work area affecting the Commission's needs for fiscal year 1964 was created by recently enacted legislation (Public Law 87–805, approved October 15, 1962). This legislation repealed the old second proviso of section 206(a)(1) and added to that subsection two new paragraphs, which (1) provides for the issuance of so-called grandfather certificates of registration to those carriers now operating under that proviso, and (2) establishes a procedure by which single-State motor carriers seeking new or additional intrastate operating authority also may obtain, upon a proper showing, a certificate of registration authorizing comparable interstate and foreign operations. It is estimated that approximately 3,000 grandfather applications and annually 1,000 petitions for review of State actions will be received for processing. The 1964 budget includes seven attorney-advisers to handle this additional workload.

Rail and motor carrier unification applications under sections 5 and 207 constitute a large volume of the work. The number of such motor carrier applications and investigations pending on June 30, 1962, was 304, compared to 378 pending at the end of the 1961 fiscal year. There was a slight increase from 103 to 111 in the number of formal cases pending involving railroads and water carriers under sections 1(18), 5, and 13a.

GREATER COMPLEXITY OF CASES

Regarding this type of proceeding, it should be emphasized that a comparison of the number of cases presently and previously pending is not truly indicative of the increase in workload. Among the pending cases are applications for acquisition of control or merger involving many of the largest railroads of the Nation. It is expected that additional such applications will be filed. Each application of this nature, on the average, requires 20 to 30 times as many hearing-examiner man-hours as other applications handled by hearing examiners. For example, two hearing examiners and the equivalent of 6.5 to 7 man-years of legal and economic staff have been assigned the pending proceeding involving the proposed merger of the Pennsylvania and New York Central Railroads.

As of December 31, 1962, there were 109 rail and motor proceedings awaiting hearings, and there were 93 proceedings pending in which a hearing had been held but an examiner's report had not been served. Included in the latter are cases involving (1) competitive applications of the Southern Pacific and Atchison, Topeka & Santa Fe Railway to acquire control of Western Pacific, (2) merger of the Great Northern, Northern Pacific, and Burlington railroads, (3) merger of the Nickel Plate into Norfolk & Western and lease by the latter of the Wabash, and (4) competitive applications of Missouri Pacific and Illinois Central to acquire control of Chicago & Eastern Illinois.

INQUIRY AND COMPLIANCE

The Commission's enforcement program requires immediate bolstering. The number of administrative cases involving rate matters, rulemaking, and carrier fitness qualifications continues to increase; also, there is increasing emphasis on cases falling within the so-called gray area, such as unlawful leasing, so-called buy-and-sell schemes, fictitious shipper associations, etc. During the past 6 years the number of court cases has increased by more than 100 percent without a commensurate increase in personnel. The number of court proceedings instituted, in which attorneys of the Bureau of Inquiry and Compliance are required to participate, increased from 780 in fiscal year 1961 to 934 in fiscal year 1962, an increased workload of 19.7 percent. Also, during the fiscal year 1962, the number of cases pending in court increased from 554 to 643 notwithstanding that in fiscal year 1962 we disposed of 845 proceedings as compared with 700 in fiscal year 1961. Most of these proceedings require a substantial amount of the time of our attorneys because of the mounting complexity of the issues involved. The 1964 budget provides funds for increasing our staff of attorneys by three to handle the increased workload and to reduce backlogs to a reasonably current level.

COST FINDING AND ACCOUNTING EXAMINATIONS

In past budget requests we have expressed the need for increased appropriations to augment staff engaged in cost-finding activities. Pressure for increased activity in this area steadily becomes more pronounced. The need is now acute. With the intense competition existing in the transportation industry, the carriers persevere in their efforts to obtain changes in rates and the installation of new and novel service features,[2] thus greatly increasing the demand for more current, diversified, and detailed cost data. However, during fiscal year 1962, we were able to make only one motor carrier cost study and three rail studies with the present level of personnel.

Analyses of cost evidence in formal and I. & S. cases should be made promptly to assure that such evidence is available for consideration by the Commission. We have been unable to do this in all cases, and many such analyses have been deferred for long periods causing delays in rate decisions. The additional positions requested will provide more current cost analyses.

There is urgent need to increase the frequency of field examinations of carriers' accounting records and practices. While our reorganization of the field staff of the Bureau of Accounts will improve the efficiency and strengthen the effectiveness and quality of field examinations, the number of examinations will fall short of our needs unless additional personnel can be obtained.

We have not been able to meet our schedule of examinations which requires an audit of the large transportation companies annually and the audit of the smaller companies on a 2- to 6-year interval basis. Frequency of examination is based on the volume of annual business, except that pipeline companies are scheduled annually because of the consent decree restricting dividends to 7 percent of the valuation of the carrier's property as found by this Commission. The 1964 budget provides funds for increasing the frequency of accounting examinations, thus enabling our staff to examine the accounts of a greater number of carriers each year.

OFFICE OF THE GENERAL COUNSEL

During the past fiscal year the Office of the General Counsel has experienced a substantial increase in litigation involving Commission orders. This, too, is an area over which we have no control of the work demands. There were 232 cases in process during fiscal year 1962 as compared with 158 cases in process during fiscal year 1961, an increased workload of 46.8 percent. Cases pending at the end of fiscal year 1962 numbered 149 as compared to 93 pending at the end of fiscal year 1961 or an increase of 60 percent. As a result of this increased workload, we are experiencing serious difficulty in meeting brief and trial dates set by the courts. In many instances, despite night work and weekend efforts of our attorneys, extra printing costs are being incurred in order to meet court deadlines. I am pleased to report to you that the General Counsel's Office has so far continued to enjoy an enviable record of success in defending Commission orders, but the demands upon a limited number of dedicate attorneys now surpass any good lawyer's ability to maintain this proud record of achievement. Furthermore, I cannot emphasize too strongly that the work of the Commission internally will shortly suffer if we fail to provide additional assistance to the General Counsel's staff, in order that this office may not only cope with the increasing volume of litigation but also continue to render essential nonlitigation legal service to the Commission.

Perhaps the most important single factor for the upsurge in court cases is the intense intermodal and intramodal competition in the surface transportation industry. The intermodal competition is reflected in litigation over competitive rate reductions, rail attacks on grants of new motor carrier operating authorities and upon the interpretation of existing certificates and permits. The intramodal competition is reflected in extensive litigation brought by motor carriers challenging the Commission's authorization of new competitive motor carrier services. In a smaller number of cases, railroads challenge extensions of other railroads' tracks to serve new industries. Secondly, the Commission's stepped-up enforcement activity results in cease-and-desist orders which are challenged in court. Third, the shrinking of railroad services, through partial abandonments and

[2] A very clear example of this is the proceeding commonly called the Big John grain case growing out of the Southern Railroad use of new-type grain cars. More than 16,000 pages of testimony were taken, with the issues mainly revolving around costs of the carriers. I. & S. 7656, decided Jan. 21, 1963.

train discontinuances, has been and will continue to be a steady source of litigation. Fourth, the increase in new motor carrier applications presages increased litigation over orders granting or denying such applications. The 1964 budget provides funds for increasing our staff of attorneys by four to handle the increased workload.

ECONOMIC COUNSEL STAFF

As a result of numerous studies made of the Commission's practices, procedures and organization, recommendations were made for a strengthening of our functions with respect to transport policy, analysis, and research activities. There is an urgent need for immediate and substantial enlargement of our activities in the field of transportation research into basic problems and developments as they relate to the responsibilities of the Commission, and to provide economic counsel to appear in a selected number of cases of major importance. We are doing this now, on a limited basis in some of the more complex rail merger cases by diverting key personnel from enforcement work, but this, if continued, will surely deter progress in equally important areas. It is estimated, for example, that participation by attorneys and economists in the New York Central-Pennsylvania Railroad merger case currently being heard will require the equivalent of 6.5 to 7 man-years full time. The 1964 budget includes funds to augment our research staff and to establish an economic counsel staff.

PROTESTED RATE ADJUSTMENTS

The steady increase in number and complexity of protests of proposed rate adjustments continues to be a serious problem. Protested rate adjustments increased from 4,855 in the 1961 fiscal year to 5,170 in 1962, or by 6.5 percent.

Suspension or failure to suspend an adjustment based on a faulty and inadequate analysis of the situation due to lack of time can mean the loss of thousands of dollars to the carriers and the public. To the small motor carrier, it can mean the difference between a profit or loss in its overall operations. Having given the Commission the power to suspend proposals pending investigation as to their lawfulness, the carriers and the public have the right to expect that the Board gives to each proposal careful, objective, and completely adequate consideration.

Not infrequently, a single adjustment involves a hundred or more pages of tariff matter and thousands of rates throughout a rate territory, region or wide scope. Others, while not necessarily territorywide in scope, involve new principles of ratemaking for which there is no guide for the report writer and Board to follow. The majority of the protested adjustments require considerable study and research to develop the factual situation and reach a proper conclusion. A relatively small increase is included in the 1964 budget for the Board of Suspension, which if approved, will not solve, but will alleviate the problem somewhat.

BUREAU OF MOTOR CARRIERS

The continued growth of the motor carrier industry and the increasing number of trucks on the highways has substantially increased the work of our motor carrier field staff. The 1964 budget provides funds for a small increase in our departmental motor carrier safety staff and for additional clerical assistance in the field, the latter principally intended to relieve professional staff of time-consuming clerical detail.

AUTOMATIC DATA PROCESSING STUDY

During the past fiscal year, the Commission established an automatic data processing staff to study the possible extension of this program to various operations of the Commission. Staff work in three priority areas has progressed substantially and accomplishments with respect to cost finding has been highly favorable. The two cost formulas for rail and motor carrier rate determinations, which historically have been applied manually, are now automated for computer processing. After limited experience, these operations have provided proof that we can achieve an increase in our capabilities for providing the timely data that are important in so many facets of the Commission's activities. The automated cost formulas are generally indicative of the type of endeavor we are pursuing in handling specific tasks formerly curtailed by manpower limitations. The 1964 budget provides for an increase in the ADP staff so as to

accelerate intensive studies for determining the areas where the Commission may apply automatic data processing techniques most advantageously.

OFFICE OF THE SECRETARY

The 1964 budget provides for a small increase in the staff of the Section of Reference Services in order to bring index-digesting of Commission reports to a current basis.

OBJECTS OTHER THAN PERSONAL SERVICES AND BENEFITS

I previously identified the figure of $174,378 as being for increased costs and to improve efficiency of operations. For example, the 1964 budget includes a request for an increase of $34,700 for travel expenses, which is related primarily to the requested increase in personnel. As you know, in the performance of its responsibilities, the Commission depends on the adequacy of travel funds. In order for the Commission to handle its hearings, investigations and inspections effectively, it is necessary that sufficient travel funds be provided.

The budget provides $20,000 for service at computer centers for testing program routines in connection with the ADP study.

The budget provides $18,600 in our printing funds which is requested primarily to print an increased number of Commission decisions and to republish the motor carrier safety regulations.

Increases in other items are in proportion to increases requested for additional employees and to provide for the increased cost of materials and services; namely, $24,043 for rental of office space, increased telephone costs for additional employees, and increased cost of official mail; $62,700 for office equipment and purchase of automobiles for replacement of currently operated field automobiles; $14,335 for office supplies and miscellaneous expenses less savings in movement of household goods of transferred employees.

We are convinced that the amount requested in this budget is essential for the Commission to carry out its congressional mandates. We earnestly invite favorable consideration of our budget request for 1964.

Mr. THOMAS. Go ahead.

COMPOSITION OF 1964 INCREASE

Mr. WALRATH. Mr. Chairman, we call attention in our prepared statement, which I understand has been furnished to the members of the committee and to the reporter, at the outset to the fact that it appears on its face that we are asking for a substantial increase. I want to explain that at the outset. The current budget, the 1964 budget, totals $25,450,000, which would provide for 2,540 positions. I call attention to the fact that this is a net increase of $1,900,000 and 73 positions over the 1963 fiscal year plus the supplemental.

Mr. THOMAS. What is your pay act cost and where are you getting the money? How much did you absorb? How much is your supplemental?

Mr. WALRATH. That is the next point I wanted to make.

Mr. THOMAS. We are already familiar with it.

Mr. WALRATH. In the 1964 budget we have done a little computation, and we want to emphasize at the outset that approximately two-thirds of that; namely, $1,275,843 of the $1,900,000, is to cover costs over which we have no direct control. Included is $1,006,000, which relates to the pay increase, under Public Law 87–793. In other words, 53 percent of the total increase results from the pay increases under that law.

Mr. THOMAS. That leaves you about $900,000 for your salaries and expenses.

Mr. WALRATH. No, sir; it is even different from that.

Mr. THOMAS. Go ahead.

Mr. WALRATH. In the 1964 fiscal there will be 2 extra compensable days, at an estimated cost of $145,028; and in addition to that, within-grade salary advancements will require an additional $124,815.

That brings us down to the figure that you were referring to, and that is $624,157 of the total, or less than 33 percent of the increase for the 1964 fiscal year budget, is related to additional positions on the one hand; increased costs that go along with those and related to those positions, such as rent, floor space, and travel allowances; and finally, to improve operational efficiencies.

Boiling it down still further, $449,779 is directly attributable to personal services, and the remainder of $174,378, while related in part to new personnel, also includes some requests and allowances for increased operating efficiency and costs related thereto.

I have an explanation of that at the conclusion of my statement.

Mr. Chairman, we start on the premise—I say this with all the sincerity I can command—that these 73 positions have no water in them that I can see. After study and scrutiny, I see no way to squeeze anything out of them if we are to meet the Commission's responsibilities.

As we move through the details of this, we would welcome any questions.

We set out on page 2 the factors which guided us primarily in seeking this additional money.

INTERNAL REORGANIZATION

Beginning at the bottom of page 2, under the title, "Internal Reorganization Efforts," and running into and through page 5 of the prepared statement, we have given you what may be called a stewardship report of the internal changes, the field changes, the things we have done in the past year in an effort to improve operating efficiencies, in an effort to utilize manpower and facilities in better fashion. We think the facts speak for themselves, which I will touch on in a moment, that we have done just that, but that alone has not been sufficient to keep up with the increased caseloads and the increased demands, over which we feel we have little control.

There are only one or two points there on which I think you may want emphasis.

The first of these is on page 4, where we explain our additional delegations to the field of responsibility for initiating enforcement efforts; that is, court cases and the prosecution of offenders. You may recall in 1958—I believe I am correct as to the year—we delegated out to the field the decision as to whether to prosecute in the courts for safety violations. We used that as a means of determining whether uniformity of enforcement could be obtained by delegation to the field, without the necessity of a lot of paperwork coming back to the Commission and going back out to the field, with the delay which would be involved in that. It worked so well that this year, as of July 1——

SAFETY INSPECTION—MOTOR CARRIERS

Mr. THOMAS. I notice you mention in your justification that you have 99 safety inspectors this year in the Bureau of Motor Carriers. How many did you have last year? The table is excellent, but it covers only the fiscal year 1964.

Mr. SCHMID. It is the same number. We are not requesting any increase in safety personnel.

Mr. THOMAS. When and how did you get those 99? This is a lump-sum appropriation. Only two items are earmarked, and safety has not been one of them as far as highway traffic is concerned. How did you get the 99? How did you build it up and when did you build it up? You have been asked to leave that particular field to the various State highway departments. Of course, I understand there is a lot of pressure on you from railroads, trucks, and buses where they have a mutual understanding that they want to get rid of some of this illegal traffic under the guise of safety. That is understandable. I think you have a point. Don't call it safety. Let us not go overboard on highway safety when every State in the Union has its own safety patrol doing the same thing. You could spend your money, I think, more advantageously.

Mr. WALRATH. That, sir, I think is not the correct impression we want to leave on this. The safety we are talking about, while Mr. Schmid looks for the particular answer——

Mr. THOMAS. I gave the right figure. You don't have to look for that.

Mr. WALRATH. He is looking to find when that number was obtained.

Mr. THOMAS. Look at the last sheet in your justifications, where there is a breakdown of motor carriers which gives the figure of 99 for 1964. The question I ask is, How many did you have last year and year before last for that particular activity, safety for motor carriers, and when did you begin to build this up? I think you have been at it the last 6 or 7 years.

Mr. SCHMID. I might add the big buildup in our safety personnel was in 1956 and 1957. Since that date we have been at approximately the same level of safety personnel.

NATURE OF MOTOR CARRIER SAFETY

Mr. WALRATH. May I explain what that consists of, Mr. Chairman? It is not highway safety control in the sense that you were apparently led to believe by our calling it safety. This consists mainly of our safety inspectors who go into the terminals and conduct road checks and check the vehicles. Those are things the States won't do for us because they are not set up to do that. They are not equipped to do that.

Mr. THOMAS. Your justification in the past has been that it was not road checking but terminal checking.

Mr. WALRATH. That is right, sir.

Mr. THOMAS. Go ahead.

Mr. WALRATH. And also the study of safety training programs that we insist these carriers pursue, because we find from experience

if they do not have safety programs, even management may not be aware of it but the thing gets out of hand. These vehicles go on the highway in those cases as a dangerous instrumentality. We are able to do a great deal of administrative preventive work in safety, and it takes skilled people to do that, to supervise the training programs that the carriers put in.

We have had occasions—I am sure Assistant Director Meyer would support me in this—where a carrier had on paper a very fine and extensive safety training program, but it simply did not work on the working level. Management thought they were spending enough for it, but our experts were able to show them where it was deficient, where it cut right down to the vehicles, down to the records of the drivers that they had employed. Through administrative help we believe sincerely, sir, that we have saved many lives and much damage.

Safety is a subject on which I could make a long speech.

Mr. THOMAS. I have never yet noticed a big bus on the highway get a ticket. If you go 40 miles an hour on the highway and one of these big interstate buses does not pass you, I will pay double. I have never seen one of them stopped yet. Then the next group is these great trucks, about 50 or 60 feet long. It may be plainly written on the highway signs that the speed limit is 55 miles an hour, but they will pass you going 70. I haven't seen one of them picked up, either.

Mr. WALRATH. That is the area where the States have supreme control, Mr. Chairman. We have nothing to do with that.

Mr. THOMAS. That is right. I understand that. But I still never have seen one of them picked up. Every now and then you might see one of the little trucks stopped, but I have not seen a diesel picked up. Have you ever seen a passenger bus picked up?

Mr. WALRATH. No, sir.

Mr. THOMAS. You have had a lot of them pass you, haven't you?

Mr. WALRATH. That is right.

Mr. THOMAS. I don't know what it is. They have a charmed life on the highway. It seems to me every time I get up to 62, I have to look around. I see somebody looking over my shoulder.

Mr. EVINS. You frequently see where they have jackknifed over in a ditch.

Mr. THOMAS. Not the buses. You see trucks, yes.

Mr. WALRATH. One of the last accident reports we issued in the Bureau of Motor Carriers, investigating some deaths and injuries, happened to be a bus, and our finding was that he was exceeding the safe speed limit as well as not having adequate brakes at the time. There were many factors.

About all we can do, sir, is call attention to these things over which the State has control as to speed. I agree with you that it is pretty outrageous the way some of them operate on the highways.

Mr. EVINS. You have control over other items besides speed, Mr. Chairman.

Mr. WALRATH. Yes, sir, we have. We have control over the condition of the brakes, the driving hours, and the hours of service. That is why we need these inspectors to tighten up on these things. That is the justification for it.

Mr. EVINS. After you made this inspection and after you made this report and found out these facts, in this specific instance where people were killed, what did the ICC do?

Mr. WALRATH. I cannot tell you in detail all we have done, and I do not recall whether the driver was killed in that one. In any event, among other things, criminal charges are brought against him in the appropriate court, and civil actions are brought by us. Penalties are imposed. This particular case, Mr. Evins, is very recent. I don't know in detail what may have happened since, but I can find out for you, sir. These are not dropped with our reports.

One of the first things done is a very careful check to determine the facilities, safety program, and things we do have control over as to that particular carrier.

Mr. EVINS. When you notify the transportation company, do you get reassurance from them that this will be prevented in the future.

Mr. WALRATH. We do not accept their assurances, sir. We see to it that they do comply. We go right in and do that. That is why 99 safety inspectors are kept busy. That is part of their job.

Mr. EVINS. Do these investigations show that the same companies are repeaters? After an accident has been called to their attention, are they repeaters, or when another accident occurs is it ordinarily another company?

Mr. WALRATH. I think in 1959 or 1960 we found some five motor carriers of freight turned up at our road checks in bad condition. We brought them in to formal proceedings, threatening their certificates unless they came into compliance. That was a pretty drastic thing. They did quickly get into compliance, as I recall it, but we kept them in suspense for a period of some months until we were certain.

Mr. EVINS. You have a lot of statistics. My point is, Once you have had a case with one of these companies, are they repeaters?

Mr. WALRATH. They are not repeaters for very long, if they are, because that is when we take action through the fitness proceedings. That is what I had reference to, where we actually formally charged them with deficient safety measures. We hold their feet to the fire until they have their program on an acceptable level.

Mr. EVINS. Most of your action is just notifying the company, and you turn over the other facts to the district prosecutor. You don't take criminal action yourself.

Mr. WALRATH. We frequently do, yes, for safety violations. That is what the second paragraph on page 4 covers.

Mr. THOMAS. I don't see how in the world you can police the highways. We have city, county, State, and Governors elections every 3 or 4 years, and of course highways are always one of the issues, whether properly or improperly handled, and so forth. I notice these weigh stations at the side of the highways in various States, where all the trucks come in to be weighed.

Mr. OSTERTAG. Those are State stations.

Mr. THOMAS. Yes. The States are in a position right there to check every one of them not only for weight but for fitness and everything else.

Mr. WALRATH. Not necessarily interstate carriers, Mr. Chairman. They do it as to their own, but if they check ours, once they find it is an interstate carrier, they report that to us and we follow up.

INSPECTION OF INTERSTATE MOTOR CARRIERS

Mr. JONAS. You do not undertake to check all these interstate carriers on the highways, do you?

Mr. WALRATH. Only from time to time, Mr. Jonas. We have the so-called road checks.

Mr. JONAS. Would it not be better to direct your attention to the terminals?

Mr. WALRATH. We do that, sir. The greater emphasis is on the terminals. That is an around-the-clock, day-by-day proposition. With all of the motor carriers to be checked, our forces just are not adequate.

Mr. JONAS. Do you run into any lack of cooperation on the part of carriers?

Mr. WALRATH. Seldom.

Mr. JONAS. It would seem to me they would have an interest higher than yours in providing adequate safety devices and keeping their brakes in repair and other things.

Mr. WALRATH. That is right, sir. That is why I said a moment ago to the chairman that frequently management does not realize that its safety program has gotten out of hand until we have made these checks and called it to their attention.

Mr. JONAS. Do they not all have safety engineers who do nothing but check safety devices?

Mr. WALRATH. The larger ones do have, and then if they become complacent about it, the first thing we know many of their vehicles are below standard and we have to take action.

Mr. JONAS. Ninety is your total number of inspectors, is it not?

Mr. WALRATH. I think 99 is the figure, sir.

Mr. JONAS. You cannot do anything but spot check with that number. You could not check the truck terminals in my district alone with 99.

Mr. WALRATH. That is right. We can do it only on a rotation basis. We try to check them frequently but, as you say, it is a question of spreading the manpower most efficiently.

Mr. OSTERTAG. Is there any coordination in this operation between the State weigh stations and the ICC?

Mr. WALRATH. Yes; but the degree to which that is done varies from State to State. In the case of a road check, if it happens a weighing station is the logical place to have a road check, we have little difficulty in getting the State's cooperation in using that, with their personnel and ours working side by side with the State highway patrols. Recently we had such a check in Virginia.

Mr. OSTERTAG. You are not particularly concerned about the weight, are you?

Mr. WALRATH. No, sir, we are not.

Mr. OSTERTAG. Are these stations involved in inspection of any kind for compliance?

Mr. WALRATH. They are interested in their intrastate trucks, yes, sir, but when they find one that is interstate, they let our man take over at that point.

Mr. OSTERTAG. Trucks operating in interstate traffic are still subject to the weight check, are they not, while they are in a particular State?

Mr. WALRATH. The weight and the length of the unit are entirely within the State's statutory provisions, yes, sir; but as to the commodities carried or the condition of its brakes, driver's logs, his physical condition—those are matters for which we have to take primary responsibility on interstate carriers.

STATE MOTOR INSPECTIONS

Mr. JONAS. How many States have mandatory inspection laws?

Mr. WALRATH. I would have to check that.

Mr. JONAS. Most of them do have.

Mr. WALRATH. Do you know, Mr. Meyer?

Mr. MEYER. I do not have the exact figure on automobile and truck inspections, but approximately one-third of them do have.

Mr. JONAS. What do you find your experience to be in those States that have mandatory inspection laws and those States that do not have such laws?

Mr. MEYER. Sir, it is not greatly different, because the State inspection generally covers a half dozen basic items, like whether the brakes stop the car, whether the lights burn, four or five such items. If they meet the basic safety requirements, a sticker is placed on them. Our inspection goes much beyond that in determining the mechanical condition of the vehicle.

MOTOR CARRIER ACCIDENTS

Mr. JONAS. One other question. Do you have any statistics which would disclose how many accidents last year were caused by faulty equipment? Is it not true that the vast majority of the accidents are caused by negligent driving?

Mr. MEYER. You are correct, sir. A small percentage is caused by mechanical defects. Probably less than 10 percent are directly tied to mechanical failure. The severity, however, is usually much higher where such mechanical defects are involved.

Mr. THOMAS. Gentlemen, maybe the Chairman of the Commission and his colleagues will advise us as to some of their headaches, particularly on some of their merger cases. What about your railroad mergers? What about your railroad loans? What is the general condition of the railroad industry? What about your trucks and buses? What about the conflict, be it great, small, imaginary or real, between the barge lines, the railroads, and the trucks? Tell us generally something about your overall workload. Spell out what your reorganization was and just how it has worked. Let us spend a little time on that.

Mr. WALRATH. Mr. Chairman, I think I will cover much of what you have said in this statement.

Mr. THOMAS. A couple of years ago, even up until last year, you were having some difficulty, shall I say, or some thought about tightening up your regulations on some of your trucks and buses for

the hauling of household furnishings. Tell us about that, too. Go ahead.

Mr. WALRATH. Much of that I have covered here. If we have not, we will certainly provide it to you. May I suggest one thing before we leave the field of safety, on page 106 of our justifications.

Mr. THOMAS. We will get back to that in some detail.

Mr. WALRATH. That covers the work of these safety inspectors.

NEW REVIEW BOARDS

The next item in my prepared statement of which I think the committee would like some brief explanation appears on page 4. You remember part of our reorganization this past year was the setting up of review boards of staff people who would enter the initial decision of heard cases. We were not able to do that until you helped us correct the law.

We delegate those cases to them. We have three such boards now, and I think the figures are dramatic. I think the success in that area has been dramatic, Mr. Chairman. Bearing in mind this is the first year that those boards have operated fully, they handled and disposed of 523 cases. This is not in my prepared statement, and that is why I want to put this in the record. Of those, 426 were accepted by the parties without even a petition.

Mr. THOMAS. What was the nature of the cases?

Mr. WALRATH. These are operating rights cases in some instances, rates and practices, disputes over rates, finance matters within the Bureau of Finance, securities.

Mr. THOMAS. Practically everything except mergers.

Mr. WALRATH. That is right, everything except mergers may fall into that category. Control is exercised by the divisions as to which cases the boards have.

Mr. THOMAS. What is the control? A dollar limitation?

Mr. WALRATH. No, sir, it is the importance of the case.

Mr. THOMAS. I don't see how you could put a dollar limitation on it. How do you figure the importance of it?

Mr. WALRATH. In most instances it is easy to tell.

Mr. THOMAS. It might be unimportant to A, but very important to B.

Mr. WALRATH. I agree with you.

Mr. THOMAS. That is a rather fluid yardstick, too. Anyway, the boards have been doing a good job?

Mr. WALRATH. Excellent. I wanted to give you the breakdown on it. There were 426 not even challenged. The parties, everybody concerned, accepted the decision of the board. Ninety-seven petitions were filed, or less than 20 percent of the total. Of these, 61 were denied by the appellate division, which means they affirmed the board. That left only 10 which were granted. Several are still pending.

Out of the 523 cases that the boards handled——

Mr. THOMAS. How many of the boards do you have?

Mr. WALRATH. Three boards.

Mr. THOMAS. How many appellate divisions have you?

Mr. WALRATH. Three.

Mr. THOMAS. And then the big Commission.

Mr. WALRATH. And then the entire Commission, yes, sir.

NUMBER OF APPELLATE CASES HANDLED

Mr. THOMAS. How many cases did the three appellate divisions handle?

Mr. WALRATH. Overall, including the 523, we have handled approximately 7,900—the total caseload.

Mr. THOMAS. If your 3 boards heard 523 cases and 80 percent of them were acceptable to all the parties, the 3 divisions did not have anything to do with those cases, did they?

Mr. WALRATH. They had the balance of the 7,900 cases.

Mr. THOMAS. What is the sum total that the three divisions handled?

Mr. WALRATH. I am coming to that, sir. On page 6 of the statement we show that we handled 7,902 formal cases during the fiscal year.

Mr. THOMAS. That was the three appellate divisions?

Mr. WALRATH. Yes, sir, and the entire Commission.

Mr. THOMAS. That is what I am trying to break down. How many cases did the Commission handle?

Mr. WALRATH. My attention is called to a fiscal year figure in table 2. 2,975.

I should say, Mr. Chairman, before we leave reorganization——

Mr. THOMAS. Let me get the figures firmly in my mind again. What were the figures? How many cases did the three divisions handle on their own?

Mr. WALRATH. A total of 7,902 cases were handled by the entire Commission.

Mr. THOMAS. Can you break it down?

Mr. WALRATH. We can do it for the record, but I do not know offhand how that is divided.

Mr. THOMAS. You had 523 by the three divisions?

Mr. WALRATH. That is by the three boards.

Mr. THOMAS. That is what I am talking about, the three boards.

Mr. WALRATH. Please bear in mind, sir, this is the first year of operation, and it has worked so well it is my impression we will use it more effectively in the future.

Mr. THOMAS. Mr. Schmid, can you give us a horseback opinion on those figures between the three boards or divisions?

Mr. SCHMID. We have a breakdown on fiscal year 1962. There was a total of 700——

Mr. THOMAS. Your three boards were not set up in 1962, were they?

Mr. SCHMID. Yes; they were.

Mr. THOMAS. Go ahead.

Mr. SCHMID. As someone just said, they were set up for half a year. We had a total of 7,902 cases.

Mr. THOMAS. You mean that is everything that the Commission handled?

Mr. WALRATH. The formal cases.

Mr. SCHMID. The formal cases. Of that number, 2,975 cases were handled at the Commission, division, or board level. Another 2,081 cases were completed upon service of the hearing examiner's recommended report and order.

Mr. THOMAS. If it was completed at the hearing examiner's level, to make it final it had to go up to the Commission, and the Commission approved exactly what the hearing examiner found.

Mr. WALRATH. That is by operation of law, sir, unless exceptions are filed.

Mr. THOMAS. So, the Commission never gets to that.

Mr. WALRATH. The Commissioners individually don't, but of course there is a great deal of processing of those cases up to that point.

Mr. SCHMID. To finish that breakdown, the balance of the cases, 2,846, were disposed of either through dismissal or discontinued prior to the service of the examiner's recommended report and order. That is the breakdown of the total number of cases. It means that 2,975 cases went to the Commission, a division, or a board for decision.

COMMISSION DECISIONS

Mr. THOMAS. What constitutes a decision by the Commission?

Mr. WALRATH. Any one of these 7,902 cases, sir, were Commission decisions, either by operation of law at the hearing examiner level——

Mr. THOMAS. Does the law make one of your board's opinions final unless it is appealed?

Mr. WALRATH. It makes the hearing officer's opinion final by operation of law. Then the board decisions from which no petition is filed become final at that level.

Mr. THOMAS. Is that by operation of law or by order of the Commission through rules and regulations?

Mr. WALRATH. It is prescribed by rules and regulations; yes, sir. We could change it of our own motion. It is seldom done unless something is called to our attention. Then it goes right on up. It goes to the Commission level. All together, that constitutes 7,902 formal cases closed during 1962, which is the largest in our 75-year history, sir.

Mr. THOMAS. What part of those 7,902 were dismissals? You gave a figure on that.

Mr. SCHMID. We had 2,846 cases which were either dismissed or discontinued prior to the service of the examiner's recommended report and order, of the total that I gave you a little bit ago.

APPELLATE CASELOAD—FISCAL YEAR 1962

We have a very short table here, Mr. Chairman, which spells out the whole workload for fiscal year 1962 and breaks it down by category of cases and how they were disposed of, if you would like to have it.

Mr. THOMAS. Where is that table?

Mr. SCHMID. It is not in the justifications. It is one of our management reports. In addition to all this——

Mr. THOMAS. It is of no help to us to have it in your book and not in ours.

Mr. SCHMID. Not in this fashion, but throughout our justifications we have the same figures. They are not condensed just the way these are.

In addition to all this, you have your petition work.

Mr. OSTERTAG. You say they are not condensed. You mean they are not compiled together.

Mr. SCHMID. They are not summarized as in this table.

Mr. WALRATH. Would it be helpful if we offered that table for the record?

Mr. THOMAS. I believe it would be. Will you submit it?

Mr. SCHMID. Yes.

Mr. OSTERTAG. For what period is that?

Mr. WALRATH. Fiscal year 1962.

(The information submitted follows:)

Proceedings cases closed during fiscal year 1962 compared to closings in fiscal years 1960 and 1961—Average time in months from date of filing or date of order to closing at last stage of processing

	Dismissed or discontinued generally prior to service of examiner's recommended report and order						Service of examiner's recommended report and order						Circulation of the draft final report						Total cases		
	Fiscal year 1960		Fiscal year 1961		Fiscal year 1962		Fiscal year 1960		Fiscal year 1961		Fiscal year 1962		Fiscal year 1960		Fiscal year 1961		Fiscal year 1962				
	Cases	Months	Cases	Months	Cases	Months	Cases	Months	Cases	Months	Cases	Months	Cases	Months	Cases	Months	Cases	Months	Fiscal year 1960	Fiscal year 1961	Fiscal year 1962
BUREAU OF FINANCE																					
Finance, convenience and necessity, and securities cases	25	7.1	31	5.2	13	8.7	10	10.3	15	12.3	16	10.5	348	5.5	359	5.8	358	5.0	383	405	387
Motor carrier finance cases	40	6.0	24	7.6	39	7.0	73	13.3	79	12.7	76	11.2	211	13.1	299	11.8	263	11.1	324	402	378
BUREAU OF OPERATING RIGHTS																					
Motor carrier operating authority	866	4.9	916	4.7	876	4.5	2,271	7.5	2,105	8.2	1,828	6.3	1,201	14.9	1,468	16.2	1,728	14.5	4,338	4,489	4,432
Motor carrier complaint cases	214	5.0	390	4.1	285	5.4	13	13.6	19	12.6	29	14.9	38	21.4	46	21.5	74	19.8	265	455	388
Water carrier operating authority cases	5	8.8	8	12.0	13	5.3	12	9.5	4	9.8	8	6.0	7	14.5	9	19.0	41	8.1	24	21	62
BUREAU OF RATES AND PRACTICES																					
Formal dockets, rate complaints, and investigations	531	11.3	132	8.9	116	9.5	30	8.7	70	10.5	89	8.4	229	15.5	180	15.6	186	15.1	790	382	391
Investigation and suspension, motor	878	2.3	952	2.0	1,281	1.7	9	22.4	11	8.8	12	7.8	193	9.2	142	9.1	194	7.0	1,080	1,105	1,487
Investigation and suspension, rail	146	3.3	160	4.2	202	3.9	1	13.0	1	5.0	3	18.3	76	12.1	63	14.3	91	10.1	223	224	296
4th section applications	8	1.4	19	5.9	11	8.2	6	13.3	4	9.3	13	16.0	29	15.0	17	30.4	9	19.8	43	40	33
MISCELLANEOUS CASES																					
Ex parte, sec. 5a, freight forwarder, etc.	37	8.3	35	9.2	11	12.8	3	7.3	4	11.3	6	16.5	24	9.8	71	10.7	31	17.4	64	110	48
Grand total	2,750	5.3	2,667	3.9	2,846	3.6	2,428	7.8	2,312	8.5	2,081	6.8	2,356	12.9	2,654	13.9	2,975	12.6	7,534	7,633	7,902

Mr. THOMAS. What division has jurisdiction over mergers? Finance?

Mr. WALRATH. Division 3, yes, sir. The Bureau of Finance is the bureau related to it, yes, sir.

Mr. THOMAS. How many merger cases have you pending—trucks, barges, railroads, and whatnot?

Mr. WALRATH. I have that in the statement. If you would like it now, I will find it.

Mr. THOMAS. Judge, you go ahead and give us the statement.

REORGANIZATION

Mr. WALRATH. May I say one word on this reorganization, sir, because I believe your committee is entitled to know it. We have tried to summarize the highlights here, but we are under continuing pressure—I don't use that word derogatorily—from the Bureau of the Budget to go further in the reorganization, particularly in our field, and along the lines of the Booz, Allen & Hamilton report. We have not gone as far as they think we should and perhaps not as far as we think we should.

The big problem here, on which we are working, is how to accomplish these management reorganizations without putting another layer on the cake and adding expense to it. Our problem right now is how to get a more direct delegation to the field of operations without putting a top executive manager in each region. That is expensive, sir. I promise you we are studying it. We have a committee of five senior Commissioners, the Managing Director, and the Vice Chairman of the Commission all working diligently on that.

FIELD ORGANIZATION

Mr. THOMAS. What part of the work is organized in the field, and what part of it is finished in the field? Your charts show about 14 regional offices, and how many small stations do you have? There were so many I could not count them. They are not added. You have 14 regional offices?

Mr. WALRATH. Thirteen for motor carriers.

Mr. THOMAS. No, I am talking about for everybody. Are they all for motor carriers?

Mr. WALRATH. No, sir, but there are more regions for motor carriers.

Mr. THOMAS. Turn to the very last chart, the organization chart. Field service, 13; and Anchorage makes 14. In the breakdown I think I saw somewhere the figure 837 for your total field service.

Now turning to the charts on pages 214 and 215, I did not count them all. How many locations are there?

Mr. WALRATH. A large number of those are suboffices rather than regional offices, supervisors that are placed where they are to avoid heavy travel expenses.

Mr. THOMAS. What part of your entire workload is originated by these people? These people are not all in the Bureau of Motor Carriers by any means?

Mr. WALRATH. No, sir.

Mr. THOMAS. You have a Bureau of Motor Carriers, a Bureau of Inquiry and Compliance, a Bureau of Safety and Service—you have all your operating bureaus located in the field?

Mr. WALRATH. And, of course, that is where the work is.

Mr. THOMAS. What about the Bureau of Finance?

Mr. WALRATH. We have no field offices for Finance. We have some auditors in the field for accounting but not for financing as such.

Mr. THOMAS. What about your big bureau where most of your litigation is? You do not have a field office for that, do you?

Mr. WALRATH. Not as such; no sir. Some of the field people develop information for the benefit of investigation into the rates. But to answer your basic question, the operational work is done in the field almost entirely. The administrative office and administrative controls are presently here in the Interstate Commerce Commission.

STUDY OF DISTRIBUTION OF FIELD AND CENTRAL OFFICE EMPLOYMENT

Mr. THOMAS. You have about one-third of your people in the field and about two-thirds of your people in Washington?

Mr. WALRATH. That is right.

Mr. THOMAS. Is that a proper distribution?

Mr. WALRATH. We have up to now believed so. To put more in the field and less here is what we are trying to work out in a manner that would not be more costly.

Mr. THOMAS. My inquiry is whether the Commission is giving proper study to the distribution of people between Washington and the field to see if you are getting the most out of your employees.

Mr. WALRATH. That is our purpose.

Mr. THOMAS. I did not mean to imply there is a shortage on the part of your employees. I just wondered about the distribution.

Mr. WALRATH. That is the very study we are engaged in now, Mr. Chairman. We are moving as quickly as we can.

Mr. THOMAS. Who is making the study for you?

Mr. WALRATH. The five senior Commissioners, with the help of the Vice Chairman as coordinator, and with the aid of our management staff. We have been at this more than 2 years and gradually we have done the things indicated on pages 2 to 5 of my statement.

BUREAU OF THE BUDGET CRITICISM

Mr. THOMAS. What is the criticism of the Bureau of the Budget?

Mr. WALRATH. I think it is fair to say they feel we have not delegated enough authority in the field and have kept too much control here. To accomplish the purpose I think they have in mind, we should have the regions almost self-operating, autonomous, with authority to act and with simply an appellate return to Washington.

Mr. THOMAS. If you were to take that approach and accomplish it, what change would it entail between your present load in Washington and in the field? Would it be reversed and instead of having one-third in the field and two-thirds in Washington you would have two-thirds in the field and one-third in Washington?

Mr. WALRATH. I do not think the change would be to that extent because the decision finality has to stay here to be on a Commission level.

Mr. THOMAS. Could you have a small division for each of your 12 or 13 regions and let them dispose of their cases without coming here?

Mr. WALRATH. That has not been suggested by anyone, sir.

Mr. THOMAS. If it has not been suggested it must be wrong.

Mr. WALRATH. I do not imply that.

Mr. THOMAS. I suppose there is not too much merit to it if it has not been suggested by anyone.

Mr. WALRATH. To divide 11 of us in 13 regions.

Mr. THOMAS. What 11 are you talking about?

Mr. WALRATH. Commissioners.

Mr. THOMAS. I am talking about your boards. Could it be possible to have a board in each regional office and have them dispose of their own cases?

Mr. WALRATH. It is worth thinking about. It would mean we would have to set up additional staff. Many things that sound fine cost more money and we are trying not to do that.

Mr. THOMAS. I thought you would save money, since you disposed of 523 cases of which only a few were appealed.

Mr. WALRATH. Where they can be handled without appeal to the Commission, that is fine, but that is a limited number. If we begin to assign cases of wide importance to those boards, I think we would have an increase in petitions.

BOOZ, ALLEN & HAMILTON REPORT

Mr. EVINS The Booz, Allen & Hamilton report concerned itself more with the functions in Washington and not in the field, did it not?

Mr. WALRATH. It was across the board, Mr. Evins.

Mr. EVINS. You have not done much with regard to the latter in the field?

Mr. WALRATH. They would say we have not done enough, Booz, Allen & Hamilton.

Mr. EVINS. In the field?

Mr. WALRATH. The internal changes in the Commission itself were accomplished principally in 1961 and we find that it has been an improvement because it has stepped up our processing of the cases. In my statement you will find we have cut off a month average handling of the cases. We have handled the greatest number of cases in the history of our Commission, as shown on page 6. And we also point out the tremendous increase in caseload, over which we have no control, and it is continuing.

On page 7 of the prepared statement we point out the areas, beginning on page 7 and continuing on page 8, where we show the new work areas, and on page 9, where we show the cases coming to us now are generally of greater complexity than they were some years ago. That brings us to the case of railroad mergers and other cases pending before us. Never in the history of 75 years of the Commission have there been pending so many cases of national importance before us at any one time. We need mention only a few to illustrate that. It is common knowledge that the entire railroad system of the Northeast is in one form or another before the Commission in consolidation and merger proposals. But that is not confined to the Northeast. It

just happens their financial conditions are more serious than some of the others.

The point of my statement on that is that those cases are not numerically one, two, or three more cases, but in the New York Central-Pennsylvania case it is taking the time of two full-time hearing examiners and the equivalent of 6.5 to 7 man-years in professional handling by counsel, to represent the public interest and the aid of economists.

Mr. THOMAS. That is the joint effort of the Bureau of Transport Economics and Statistics and the Bureau of Finance?

Mr. WALRATH. Bureau of Transport Economics and Statistics and Finance, yes, but that is above and beyond the normal case requirements.

ECONOMIC CONDITION OF RAILROADS

Mr. THOMAS. Will you permit a little interruption and give us a little information along this line in addition to the fine statement you are making? May I say that Members of Congress get letters quite often from various sections of the country saying the plight of the railroads is not nearly as serious as the railroads allege it to be. I wonder if the Bureau of Transport Economics and Statistics has any information, first, as to how many separate railroad lines there are in the country. Do you have a table showing that and what their earnings were at any particular time, and which ones are operating in the red?

Mr. WALRATH. As of yesterday, not for the purpose of this hearing but because I had asked for it——

Mr. THOMAS. You wanted to know too?

Mr. WALRATH. Yes. The Bureau of Transport Economics and Statistics gave me a summary of the 1961 incomes of the major railroads.

NUMBER OF RAILROADS

Mr. THOMAS. How many major railroads do we have?

Mr. WALRATH. I do not know the total offhand.

Mr. MARGOLIN. About 105 first-class line-haul railroads.

Mr. THOMAS. What is the difference between first- and second-class railroads, is it a matter of revenues?

Mr. MARGOLIN. Yes.

Mr. THOMAS. What is the total number of all railroads?

Mr. MARGOLIN. Including class 2 and switching and terminals there are around 600.

Mr. THOMAS. Those are all called railroads, whether they are just switching and terminals?

Mr. MARGOLIN. Yes.

Mr. THOMAS. Do the 105 comprise, as far as revenue and employment is concerned, 50 or 55 percent?

Mr. MARGOLIN. No; 94 or 95 percent.

Mr. THOMAS. In revenue or employment or both?

Mr. MARGOLIN. Both.

Mr. THOMAS. What part of the 105, in your latest information, shows a profit? Will you insert that in the record?

Mr. WALRATH. Yes.

(The following was submitted for the record:)

PERCENTAGE OF CLASS I LINE-HAUL RAILROADS WHICH SHOWED A PROFIT IN 1962

From published reports of the results of operations of 44 class I railroads for the year 1962, and from reports for 9 months operations or 11 months operations, as available, of the remaining roads, it is estimated that 72 percent of the class I line-haul railroads will have a net income credit balance for the year. It is not possible to foresee the effect of the new depreciation allowances and the tax credit law upon the carriers which have not published their final figures. For the districts, the percentages were: Eastern, 50; Southern, 76; and Western, 92.

IMPROVEMENT IN RAILROAD PROFIT

Mr. THOMAS. What else does that table show?

Mr. WALRATH. This is based on the Wall Street Journal report because the reports we require have not yet been filed with us. The publicly reported incomes Mr. Margolin has against the actual 1961 in general show there has been an improvement 1962 over 1961. Am I correct in that?

Mr. MARGOLIN. Yes.

Mr. THOMAS. Are they all making money?

Mr. WALRATH. No. That means improvement. For example, the Erie-Lackawanna had a deficit of $26.5 million in 1961 and it has cut the deficit to $16.5 million this year.

TEN LARGEST RAILROADS

Mr. THOMAS. What are the ten largest lines?

Mr. WALRATH. In employment and revenue?

Mr. THOMAS. Yes.

Mr. WALRATH. Without checking it I think the Pennsylvania is the largest.

Mr. MARGOLIN. Pennsylvania, Union Pacific, Southern Pacific, Santa Fe.

Mr. THOMAS. What about the Southern?

Mr. MARGOLIN. Southern is one of the largest but not at the top of the heap. And the New York Central, of course.

Mr. OSTERTAG. Where do they stand?

Mr. MARGOLIN. Second or third in terms of revenue and employment.

Mr. THOMAS. What about the B. & O.?

Mr. MARGOLIN. The B. & O., I am guessing, but it is sixth, seventh, or eighth.

Mr. THOMAS. It is in the top 10?

Mr. MARGOLIN. I believe it is.

Mr. THOMAS. Give us the top 10 in their proper order when you revise your remarks.

Mr. MARGOLIN. Yes, sir.

Mr. THOMAS. Also, give us some information on the volumes and revenues of your other carriers.

(The information supplied follows:)

Selected 1961 and 1962 data for the 10 largest railroads in the United States, as measured by railway operating revenues in 1961

[Dollars and ton-miles in thousands]

	Railway operating revenues	Average number of employees	Total compensation	Net income	Revenue ton-miles
Pennsylvania RR:					
1962	$850,655	[1] 66,700	[1] $440,000	[2] $3,210	45,225,000
1961	820,141	67,242	438,147	3,516	42,068,492
New York Central RR.:					
1962	622,559	[1] 51,350	[1] 350,000	[2] 3,836	31,240,000
1961	612,004	53,174	354,996	[2] 12,549	30,653,901
Atchison, Topeka & Santa Fe RR.:					
1962	612,320	[1] 45,100	[1] 291,600	70,692	35,620,000
1961	604,524	45,877	292,250	54,850	36,043,927
Southern Pacific RR.:					
1962	701,879	48,966	333,536	82,026	38,920,000
1961	565,533	41,302	275,428	70,114	36,268,338
Union Pacific RR.:					
1962	512,125	34,861	226,336	68,630	32,690,000
1961	499,324	34,886	221,357	66,269	32,408,549
Baltimore & Ohio RR.:					
1962	365,783	[1] 27,900	[1] 180,000	1,607	23,950,000
1961	351,369	29,892	186,930	[2] 31,347	23,198,025
Chesapeake & Ohio Ry.:					
1962	338,781	24,132	173,931	35,394	28,990,000
1961	315,993	23,305	162,324	29,629	26,566,638
Missouri Pacific RR.:					
1962	297,903	[1] 18,400	[1] 126,000	17,241	20,231,000
1961	288,981	19,464	127,783	9,884	19,351,661
Southern Ry.: [3]					
1962	344,764	18,911	124,996	[4] 34,740	20,660,000
1961	330,365	19,457	123,360	[4] 29,435	19,749,227
Chicago, Burlington & Quincy RR.:					
1962	263,435	21,677	132,600	[5] 17,000	16,580,000
1961	254,161	22,216	131,679	14,409	15,729,304

[1] Deficit.
[2] Estimated.
[3] Includes Cincinnati, New Orleans & Texas Pacific Ry. Co., Alabama Great Southern RR. Co., New Orleans & Northeastern RR. Co., Georgia Southern & Florida Ry. Co., and Carolina Northwestern Ry. for the reason that employees of these companies and their compensation are included in report of Southern Railway.
[4] Southern Railway only; excludes other members of system.
[5] Moody's Transportation, Jan. 18, 1963, p. 1794.

Source: Railway operating revenues from 4th quarter reports of carriers to ICC. Employees and compensation from monthly reports of carriers to ICC. Net income from issues of Wall Street Journal, except as shown in footnote 3. Revenue ton-miles for 1961 from Transport Statistics in the United States, pt. I, sec. A-1; 1962 estimated.

Preliminary Estimates of Operating Revenues of ICC-Regulated Carriers and Public and Private Intercity Ton-Miles, 1962

The tables below provide preliminary estimates, based on limited data, of 1962 operating revenues of eight types of carriers regulated by the Interstate Commerce Commission, and of public and private intercity ton-miles in 1962. Data for 1961 are included for purposes of comparison. These tables correspond to those which appear at pages 11 and 12 of the Commission's 76th annual report.

Operating revenues, 1961 and 1962

	Revenue in millions of dollars		Percent increase
	1961	[1] 1962	
Rail [2]	$9,540	$9,793	2.7
Railway Express [3]	257	273	6.2
Pullman Co.	52	50	[4] 3.8
Electric railways	22	21	[4] 4.5
Water carriers [5]	389	401	3.1
Pipelines (oil)	787	812	3.2
Motor carriers of passengers [6]	690	738	7.0
Motor carriers of property	7,463	8,351	11.9
Total	19,200	20,439	6.5

[1] Preliminary.
[2] Includes line-haul and switching and terminal companies; includes Alaskan and Hawaiian.
[3] After deducting payments to others for express privileges.
[4] Decrease.
[5] Includes only revenue from domestic traffic of carriers subject to the jurisdiction of the Interstate Commerce Commission.
[6] Does not include motor-carrier revenues of electric railways, included under "Electric railways."

Volume of intercity ton-miles, public and private, by kinds of transportation, 1961–62

	Ton-miles (billions)		Percentage of grand total	
	1961	1962	1961	1962
1. Rail, including express, mail, and electric railway	570.0	577.2	42.96	42.29
2. Motor transportation of property	[1] 313.1	328.7	23.60	24.08
3. Waterways, including Great Lakes	209.7	214.9	15.80	15.75
4. Pipelines (oil)	233.2	242.9	17.57	17.80
5. Airways, domestic revenue	.895	1.050	.07	.08
Total	1,326.9	1,364.75	100.00	100.00

[1] Revised.

Mr. THOMAS. Where does the Southern Pacific stand, approximately?

Mr. MARGOLIN. It is in the first five or just below that.

Mr. THOMAS. Are they making money?

Mr. MARGOLIN. They are doing quite well.

Mr. OSTERTAG. Is not the total mileage a factor in their size?

Mr. MARGOLIN. Yes, on the physical size. I was dealing primarily with revenue.

Mr. WALRATH. We will supply you with this information.

Mr. THOMAS. Go ahead.

ENFORCEMENT PROGRAM

Mr. WALRATH. The next subject I had included in the prepared statement begins on page 10. It is one I would like to emphasize. Our enforcement program—again a situation over which we have very little control as to workload—the work has been increasing tremendously. This deals primarily with what we call the "gray area," the shady operations that take the form sometimes of phony leases, shipper associations not really within the meaning of the exemptions in the fourth part of the act, and to no small extent the agricultural co-ops.

Mr. THOMAS. Are you directly concerned here with railroads, trucks, bargelines, or all three?

Mr. WALRATH. Not barges. The shippers are primarily land shippers, though not exclusively. There has been a growth of that operation. Some are undoubtedly legitimate but there has been a growth in the area of questionable operations with the advent of the "piggyback." When it is an evasive action we must move promptly. If we do not take care of them promptly it simply encourages other entrepreneurs and schemers to take similar action. It is affecting the railroads, it is affecting the trucks, and to some extent water carriers in the diversion of traffic from the regulated carriers into these schemes and devices.

Mr. THOMAS. What is the economics in these diversions? Is water seeking its own level and can this type of transportation serve the public cheaper than another form of transportation? That is what they allege, and they allege further it is the duty of the Interstate Commerce Commission to let water seek its own level and to give the public the benefit of this form of transportation, which is the cheapest. Then they say the Commission is putting the brakes on and it is costing the shipping and consuming public an undue shipping bill, more than if they would permit the natural competition. How do you answer that?

Mr. WALRATH. If that were the case I could not conscientiously ask what we are asking for here. If we break down or lose our common carrier system, the one obligated to serve small shippers as well as large shippers——

Mr. THOMAS. How long has the Interstate Commerce Commission been in business, Judge?

Mr. GOFF. Seventy-six years.

Mr. THOMAS. Why did it come into existence? what was the basis?

Mr. GOFF. It came into existence in order to protect shippers, generally.

Mr. THOMAS. Of course 75 or 80 years ago each of these forms of transportation were not as well developed as they are now but you had certainly some of the same problems when this agency came into operation.

Mr. OSTERTAG. There were no water carriers at that time.

Mr. THOMAS. If you were to take the bridle off and let everybody do what he was best suited to do, I do not know what the result would be over a period of years but I think you have a good case and you ought to put your best foot forward.

Mr. WALRATH. Mr. Chairman, if this were simply a seeking of its own level and an improvement of service to shippers, I could not justify my position. But this is the type of thing that indicates the very destruction of our system of transportation on which commerce and the stability of commerce depends.

BIG JOHN GRAIN CASE

Mr. THOMAS. Did you not have a very important and difficult case you recently decided having to do with the hauling particularly of agricultural commodities in barges and trucks?

Mr. WALRATH. We did.

Mr. THOMAS. What was the decision and how does that fit in with your thinking, Judge?

Mr. WALRATH. That case is still pending before us, Mr. Chairman. The division entered its report and the other eight of us may have to vote on it. (Investigation and Suspension Docket No. 7656, *Grain in Multiple-car Shipments—River Crossings to the South.*)

Mr. THOMAS. Let us get off the record, then.

(Discussion off the record.)

Mr. JONAS. In the appeal from the division will there be a hearing de novo before the Commission?

Mr. WALRATH. No, sir. An appeal from the division will come up to the entire Commission on the record as made.

Mr. JONAS. With no further arguments?

Mr. WALRATH. Perhaps oral arguments but not a de novo hearing because we have 16,000 pages of record.

Mr. JONAS. That is what I was getting at, whether you have to have hearings before an examiner, and then before the division, and then before the Commission.

Mr. WALRATH. In the normal case once the hearing examiner has completed the record that is the record.

Mr. JONAS. How long would it take the Commission to review this decision and render a final decision?

Mr. WALRATH. To some extent that would depend on the points attacked in the petition. I would judge 3 to 5 months, in that area.

Mr. JONAS. When was the application filed?

Mr. CORBIN. The application was filed last August, or, rather, August 1961. However, the Southern Railroad, which was the chief proponent of these rates, was not only not ready to go to hearing but when we set the hearing in October 1961, they begged us to give them more time. We then set the proceeding for hearing in the first part of January 1962, but they would have preferred us to wait longer.

Mr. JONAS. Then you will have a final decision in a year?

Mr. CORBIN. No, it has been a year now. The application was filed in August 1961, but we set it for hearing in January 1962, and the division itself, Division 2, the rate division, has already rendered their decision so now it is up to the parties whether the parties desire to appeal from that decision, and I am sure one party or another will appeal.

Mr. JONAS. It will be 2 years from the date of the hearing before a final decision is reached?

Mr. CORBIN. At least 2 years from date of filing.

Mr. GOFF. In any big case the hearing examiner cannot go to Memphis and have a single hearing. He has to go where the community is interested and petitions us to have a hearing. That is particularly true in a big merger case. You have maybe 90 cities in a big case that want to put in their testimony. One case we have is the Pennsylvania merger. In that case, the number of communities that want to have their say is amazing. We have to give everybody a chance to get in his view and his position and give his testimony, and it takes a lot of time to do it. If we denied them the right to be heard, the decision would be set aside right away on an appeal. So we have to reach a happy medium and have a place for the hearing to be held where

all the parties can be heard. It is not a quick process but by the very nature of the thing it cannot be a quick process.

When the case is over the hearing examiner or examiners—sometimes there are two—will get out their initial decision in the case and they may have 16,000 or 17,000 pages of testimony and they will analyze this and write an initial decision. The Southern case you referred to went to the Rates and Practices Division. In that case, though, there was no initial decision.

Mr. WALRATH. That was in the interest of time.

Mr. GOFF. In the interest of time.

CASE OF GENERAL TRANSPORTATION IMPORTANCE

Mr. JONAS. What advantage was there in having that interim hearing? Why did it not go straight to the full Commission?

Mr. GOFF. In that case we felt there should be an initial decision to consolidate the issues. We thought we would save time by having the division get out the decision. That has the advantage of consolidating the issues and pinpointing what the real points in dispute are. We have declared that a case of general transportation importance. That means a case of general importance to the country and to the shipping public. Ultimately, either way it is decided, it will be appealed, undoubtedly.

Mr. JONAS. You think you really save time by saving the interim hearing before the division?

Mr. GOFF. It was not a hearing.

Mr. OSTERTAG. You mean the case goes to the Commission only in the case of appeal?

Mr. GOFF. Only in the case of appeal and it has to be a case of general transportation importance in the opinion of the Commission. We could not get through the workload if we heard every case.

Mr. JONAS. But you hear it on briefs and oral arguments?

Mr. GOFF. Briefs but not oral arguments. Undoubtedly we will grant oral argument before the full Commission. That was a rate case. That is not true in a merger because invariably in a merger case we have the examiners get out an examiner's initial decision.

Mr. WALRATH. That is a recommended decision.

Mr. THOMAS. Mr. Wyman, do you have any questions?

SUSPENDED TARIFF

Mr. WYMAN. What happens to the tariff that has been requested to be changed by the carrier pending all this?

Mr. WALRATH. I am glad you asked that because there is a lot of misunderstanding among the lay people. Under the statute we can suspend it and investigate only for the period of 7 months. We are coming closer and closer to doing it in 7 months, but with a 16,000 page record it is a little difficult to do that. Last August the time ran out on suspension and the rates would have been in effect before approval by the operation of the 7 months time limit, but in this particular case, which is a very unique situation, the parties who opposed the reduction in rates were able to get a restraining order keeping the old rates in effect.

Mr. WYMAN. When the requesting carrier eventually prevails, if he does, he gets no retroactive application of this rate structure?

Mr. WALRATH. No.

Mr. WYMAN. If there is an appeal from the decision of the Commission what happens to the rate structure?

Mr. WALRATH. That does not delay the effectiveness of the rates after the 7-month period. Sometimes there will be an agreement between the parties to delay the effectiveness beyond the 7-month period.

REPARATION

Mr. WYMAN. Suppose at the end of 7 months there is no final action on the part of the Commission and the carrier puts its rate increase in effect and after a year or so it is denied, what would happen?

Mr. CORBIN. There would be reparation. The parties probably would not come in a formal proceeding but on an informal complaint and request authority to pay back to the shipper the excess amount over that period of time.

Mr. WALRATH. It could be handled informally.

Mr. GOFF. You say a year later. We get a decision quicker than that. In this particular case where the rate has been stayed by an order of the court, the railroad involved took it to the Supreme Court alleging that once the 7-month period has expired by law it was in effect and the court had no right to enjoin the rate from going into effect. The Supreme Court has it now.

Mr. GINNANE. It has been heard but it has not been decided.

Mr. EVINS. In merger cases there does not seem to be too much rush.

Mr. GOFF. I would not say that. The first major merger case was the B. & O. and C. & O. application for the C. & O. to take over stock control of the B. & O. There was a long series of hearings on that. It was finally orally argued before the full Commission last October 20. I happened to be in on that case too. Mr. Thomas asked something about what we do down there when we are not having conferences. On that case I think we had only two full division conferences but I can assure you that I worked many times overtime, I worked Saturdays and Sundays on that case, because I thought it was important to get a decision.

Mr. THOMAS. Judge, we have already given you A-plus. Is there any higher figure than that?

Mr. GOFF. But we got the decision out on the 31st of December, the last day of the year.

Mr. OSTERTAG. When you refer to mergers, I assume you are not limiting that to railroad mergers but to mergers of all kinds in the field of transportation?

Mr. GOFF. That is right. Now the trucking companies are getting bigger and bigger and though the cases do not arouse the national attention that the big railroad mergers do, it is awfully important to those who want to take control. We have some national carriers that gradually pick up a carrier here and there. We have to consider everything because it is important to those involved.

CHANGES IN THE TRANSPORTATION BUSINESS

Mr. OSTERTAG. I would like to ask the chairman if in his general analysis and economic studies and concern with this whole matter, if you have anything that indicates or shows, first of all, a change in overall transportation of goods and services—I mean volume—as compared with a year ago? Is business expanding? Our gross national product is going up, so therefore I would assume in the field of transportation there is a greater volume.

Mr. WALRATH. Yes, sir.

Mr. OSTERTAG. And, breaking that down, has there been any significant shift or transfer from one field to another? In other words, are railroads carrying their share as compared to the past? What is the general picture?

Mr. WALRATH. I think I can answer that, Mr. Ostertag. There is a tonnage increase in freight being carried by regulated carriers from year to year. The thing that disturbs us and the public generally and the system carriers is that the aggregate increase is not keeping pace with the increase in the gross national product. More and more of the available tonnage is moving in the unregulated channels, some private and perfectly legal, and some in these questionable type operations, and that is why it is important that we keep on top of these so-called gray area cases.

OPERATING REVENUES—FISCAL YEAR 1960 AND FISCAL YEAR 1961

By the way, on page 11 of our annual report we have a breakdown on that by percentages.

Mr. THOMAS. Put it in the record at this point.

(The material referred to follows:)

Trends in revenues among the various types of carriers were mixed for the calendar years 1960 and 1961 and the 12 months ended June 30, 1962, as shown by the following table. The railroads suffered a decline of 3.62 percent in revenue in 1961 below the level of 1960, but in fiscal 1962 their revenues were only 0.62 percent below those of 1960. Rail revenues were slightly augmented by the reclassification of two electric railways which were transferred to the rail category during the period, but as the combined revenues of these two roads in their final year as electric railways were under $200,000, the addition was slight. During the period from January 1, 1960, through June 30, 1962, 10 electric railways were transferred to the rail category, sold, or abandoned, with a consequent effect on the electric railway revenues; hence, the decline shown in the table is somewhat overstated. Waterline revenues decreased 8.90 percent in 1961 under 1960, but the table shows some improvement in fiscal 1962 over calendar 1961. Revenues of motor carriers, both of property and passengers, showed moderate increases in 1961; the increases were substantially larger in fiscal 1962, particularly for property carriers. The long-term upward trend in pipeline (oil) revenues continued throughout the period.

Duplications resulting from intercompany payments are involved in revenues of freight forwarders and private car lines and for this reason revenues of such carriers are excluded from the table. The operating revenues of freight forwarders after payments to carriers were $144 million for the calendar year 1961, as compared to $132 million for 1960. Operating revenues of private carlines were $435 million in 1961 and $426 million in 1960.

Operating revenues [1]

	Year ended Dec. 31, 1960	Year ended Dec. 31, 1961		Year ended June 30, 1962	
		Amount	Percentage change from calendar year 1960	Amount	Percentage change from calendar year 1960
	Thousands	*Thousands*		*Thousands*	
Railroad [2]	$9,898,858	$9,540,266	−3.62	$9,837,382	−0.62
Railway Express [3]	247,985	256,786	+3.55	263,906	+6.42
Pullman Co.	55,877	52,349	−6.31	50,614	−9.42
Electric railways [4]	22,834	22,297	−2.35	22,671	−.71
Water lines [5]	427,408	389,390	−8.90	401,271	−6.12
Pipelines (oil)	770,417	786,718	+2.12	802,449	+4.16
Motor carriers of passengers [6]	667,033	689,509	+3.37	713,679	+6.99
Motor carriers of property	7,213,911	7,462,668	+3.45	8,228,512	+14.06
Grand total	19,304,322	19,199,983	−.54	20,320,484	+5.84

[1] Partly estimated.
[2] Includes line-haul and switching and terminal companies; Alaskan and Hawaiian are included.
[3] After deducting payments to others for express privileges.
[4] Since Dec. 31, 1961, 2 electric railways have been reclassified as class II line-haul railways. 2 have been abandoned, and 2 have been purchased, 1 by a line-haul railway and the other by an electric railway in the same period. The total revenues of the 6 carriers discontinued were less than $320,000 in 1960. The result is an overstatement of the electric railway decline and a very slight understatement of the railroad decrease.
[5] Includes only revenue from domestic traffic of carriers subject to the jurisdiction of the Interstate Commerce Commission.
[6] Does not include motor-carrier revenues of electric railways, included under "Electric railways."

Mr. THOMAS. Read it into the record.

Mr. WALRATH. In the case of railroads—this deals with the year ending December 31, 1960, as compared with the year ending December 31, 1961. So, for a full period of a year, calendar year 1960 against calendar year 1961, the operating revenues of railroads dropped 3.62 percent.

Railway Express had an increase of 3.55 percent in revenues 1961 over 1960.

The Pullman Co. had a decrease of 6.31 percent.

The Electric Railways, which is a small part of our system in the aggregate, had a decrease of 2.35 percent.

The waterlines under our jurisdiction also had a decrease of 8.90 percent.

The pipelines had an increase of 2.12 percent.

Motor carriers of passengers had an increase of 3.37 percent.

Mr. OSTERTAG. Motor carriers of passengers?

Mr. WALRATH. That is right. That is a $22,476,000 increase.

The big increase in freight was in the motor carrier field. I shall put in both dollars and percentages. In 1960 their operating revenues were $7,213,911,000. In the next year ending in 1961——

Mr. THOMAS. Mr. Ostertag, at the proper time will you and Dr. Margolin go into the whole transport economic field in detail? It would help the record.

Mr. WALRATH. In other words, there is a 14.06 percent increase in revenues of motor carriers of property in fiscal year 1962 as compared with calendar year 1960.

VOLUME OF TRAFFIC

Elsewhere there are percentages. Page 12 gives the tonnage figures. We can insert that in the record.

Mr. THOMAS. Yes, we will put that in the record.
(The information referred to follows:)

VOLUME OF TRAFFIC

Volume of intercity traffic, public and private, by kinds of transportation [1]

Agency	Ton-miles				Passenger-miles			
	1960	1961	Percentage of grand total		1960	1961	Percentage of grand total	
			1960	1961			1960	1961
1. Railroads and electric railways, including express and mail	*Millions* 579,130	*Millions* 569,997	43.66	43.24	*Millions* 21,574	*Millions* 20,527	2.84	2.67
2. Motor vehicles: [2]								
Motor carriers of passengers	----------	----------	----------	----------	19,896	19,703	2.62	2.56
Private automobile	----------	----------	----------	----------	680,617	692,000	89.70	89.97
Motor transportation of property	297,662	304,508	22.44	23.10	----------	----------	----------	----------
Total motor vehicle	297,662	304,508	22.44	23.10	700,513	711,703	92.33	92.53
3. Inland waterways, including Great Lakes	220,253	209,706	16.60	15.91	2,688	2,251	0.35	0.29
4. Pipelines (oil) [3]	228,626	233,172	17.24	17.69	----------	----------	----------	----------
5. Airways (domestic revenue and pleasure and business flying, including express and mail)	778	895	0.059	0.068	33,958	34,642	4.48	4.50
Grand total	1,326,449	1,318,278	100.00	100.00	758,733	769,123	100.00	100.00

[1] Some revisions have been made in the 1960 data presented in the 75th Annual Report, and parts of the 1960 and 1961 data are still preliminary.
[2] Schoolbus data are excluded.
[3] Includes refined products and crude oil, with an allowance for gathering lines.

Sources (paragraphs below are numbered to correspond with items in table):
1. Reports to the Interstate Commerce Commission. Electric railway ton-miles and passenger-miles estimated on the basis of revenue. Does not include nonrevenue ton-miles which amounted to 15,725 millions in 1960 and 14,552 millions in 1961, for class I railroads.
2. Highway ton-miles estimated on the basis of Bureau of Public Roads data for main and local rural roads, mileages of routes in urban and rural areas, and on Department of Agriculture data on farm consumption. Alaska and Hawaii are included. Passenger-miles in private automobiles estimated on basis of data from the Bureau of Public Roads on rural and intercity travel and from average load data. Motor carrier passenger-miles based on Public Roads and Interstate Commerce Commission data. As processing of certain data is not complete, highway ton-mile and private automobile passenger-mile estimates herein for 1961 should be regarded as preliminary. Because of changes in base beginning with 1957, estimates for motor carriers of passengers for 1957-60 published in the 73d, 74th, and 75th Annual Reports, the above estimates for 1960 and 1961, and for private automobiles for 1957-58 in the 73d and 74th Annual Reports, are not comparable with estimates published for prior years.
3. Ton-mile data are from Corps of Engineers, U.S. Army. Data for 1961 are preliminary estimates. Does not include most coastwise and intercoastal ton-miles, about 313 billion ton-miles in 1960, as stated in Bureau of Transport Economics and Statistics Statement No. 6204, *Deep-Sea Domestic Waterborne Traffic, 1956–1960*. An estimate for this traffic by the Corps of Engineers for 1961 is 312 billion ton-miles. A small amount of duplication exists between these and the figures in the table. The data presented in the 75th Annual Report has been revised. Figures in the table include Alaskan and Hawaiian but not deep-sea ton-miles.
4. Interstate Commerce Commission, Bureau of Mines, and other data.
5. Based on Civil Aeronautics Board statistics, Federal Aviation Agency surveys, and other data. Covers domestic except movements over international waters or foreign countries. These figures, as they include, for example, Alaskan and Hawaiian, are not comparable with data in annual reports prior to the 75th. In 1959 there were 646 million ton-miles and 32,366 million passenger-miles excluding Alaska and Hawaii and 739 million ton-miles and 32,566 million passenger miles with the new States included.

Mr. THOMAS. How much more do you have on your statement?

Mr. WALRATH. I am passing quickly——

Mr. THOMAS. Don't pass too quickly. Take your time. We want to hear from the Bureau of Motor Carriers, too.

Mr. WALRATH. Beginning at the bottom of page 10 and down through page 12 of my prepared statement, that covers matters which should be of interest to the committee.

OFFICE OF THE GENERAL COUNSEL

I want to talk a moment, if I may, about the Office of the General Counsel. Here we have a very urgent problem.

The work in this area is something——

Mr. THOMAS. You have 22 lawyers in your office, secretaries and lawyers, that is, in 1963 and you want 29. Throughout the Commission you have about 300 to 500, do you not?

Mr. WALRATH. Something in between there, sir.

In any event, the workload in the General Counsel's Office is something over which we have no control. The parties are perfectly free to test our decisions in the courts. Once they are in there we have to defend them or you know the result.

We have had a 46.9-percent increase in work in 1 year's time in the General Counsel's Office. The comparative figures are shown on page 12 of my statement.

We are also having more left at the end of the year than we should have pending, despite the fact——

Mr. THOMAS. Where is the General Counsel?

Mr. WALRATH. Right behind me, Mr. Ginnane.

Mr. THOMAS. Are they working you hard?

Mr. GINNANE. We have the best job in the country in terms of being interesting but it is pretty rough.

Mr. WALRATH. He is a weekend and night worker, too.

Mr. THOMAS. How many lawyers do you have under your jurisdiction?

Mr. GINNANE. Thirteen out of twenty-two, Mr. Chairman.

Mr. THOMAS. You want four or five more?

Mr. GINNANE. Four more, Mr. Chairman.

Mr. THOMAS. Are they all seasoned lawyers? Do you have trouble keeping them?

Mr. GINNANE. We don't have much of a rate of turnover. We are losing one man through retirement, and we are losing another man——

FUNCTION OF THE GENERAL COUNSEL

Mr. THOMAS. What is the function of your lawyers? Do you make any representations before the full Commission or any of the divisions or do you do all appellate work in the courts?

Mr. GINNANE. Two-thirds of our work is appellate work in the courts. The other third is providing nonlitigation legal advice to the Commission on a variety of matters.

Mr. THOMAS. What do you mean by nonlitigation?

Mr. GINNANE. For example, the Commission will frequently, in making a decision, ask us for an opinion on some legal question involved. That may result in a memorandum.

Mr. THOMAS. The Office of the General Counsel does not appear before the Commission as an advocate, then?

Mr. GINNANE. No, with an eye on the Administrative Procedure Act.

Mr. THOMAS. They want to keep you in a position so you can be on speaking terms.

Mr. GINNANE. Exactly.

Mr. WALRATH. Where we can freely seek their advice, Mr. Chairman. I call on him two or three times a day for help on these matters and legal advice and counsel.

Mr. THOMAS. The Administrative Procedures Act puts restrictions on you. His activities in the case must cease if he is to stay on speaking terms. Do you have any jurisdiction over the legal staff of the various divisions and bureaus?

Mr. GINNANE. No.

Mr. THOMAS. You are still on speaking terms, then.

Mr. GINNANE. That is right. They call on us for assistance from time to time, and we are glad to help.

Mr. WALRATH. I am glad you went into that, Mr. Chairman. We are asking for four more attorneys. The workload speaks for itself in the statistics.

ECONOMIC COUNSEL

At the end of page 13 I attempt to explain the reasons in our judgment for this increase in litigation. Beginning on page 14 we are talking about what is relatively a new subject but not entirely a new one, and that is the economic counsel.

There have been carriers, shippers——

Mr. THOMAS. You set that up 2 or 3 years ago. That is not new.

Mr. WALRATH. Relatively new. We have not done a good selling job up to now, Mr. Chairman. We have not had what we are asking for now. We are repeating our request.

The purpose of that in simple terms is this: We would like to get into these more important cases with both economic professional help and legal representation in order to build a complete record so that it cannot be said that we do not have all facets of the public interest reflected in these records which affect vast areas of our economy and the people. It is easy to think in terms of the merger cases.

Mr. THOMAS. We want to cooperate with you. You have authority to the tune of $100 a day for your experts. Wouldn't that take care of your needs?

Mr. WALRATH. We have explored that. The problem is to find those consultants on a high level——

Mr. THOMAS. If you can't find them, how can you set up your own bureau and get them? If $100 a day doesn't find them, how can you find them without it? Are you going to train them?

Mr. WALRATH. That is part of it; yes; sir.

Mr. THOMAS. It is a slow process, is it not?

Mr. WALRATH. For example, in the *Pennsylvania-New York* case, a consultant who has private practice as well simply cannot devote full time to this case for as long as it will take to complete it. Even working at full speed it will take 2 years——

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FUNCTION OF TRANSPORT ECONOMICS AND STATISTICS

Mr. THOMAS. What is the Bureau of Economics doing?

Mr. WALRATH. They are providing us, from their limited staff——

Mr. THOMAS. You have 180 people there.

Mr. WALRATH. When you consider all the other work they have to do it makes it pretty limited.

Mr. THOMAS. What other work do they have to do outside of motor carriers, railroads, and a few steamships?

Mr. WALRATH. Director Margolin had better speak to that. It is set out in detail. He is a busy man, sir. He should have A-plus for effort, too.

Mr. THOMAS. We are for him.

Mr. MARGOLIN. Thank you, sir. First of all, in the matter of the Pennsylvania-New York Central merger, we have a staff of 14 to 16 people so we are using one-third of our staff for just that particular purpose, to try to see that things get into the record that other parties are not bringing into the case.

With respect to the balance of the organization, just as an illustration, we receive reports on an annual, quarterly, and monthly basis dealing with financial, operating, and traffic information. We receive about 100,000 reports a year. All these reports have to be checked to see if the information is correct. There is frequently correspondence to see that we get proper and sufficient information.

From these reports, as well as the compilation, we put out a series of publications used widely by the Commission and used by many parties who appear before the Commission.

In addition we also prepare from a 1-percent sample of all carload traffic terminated, which has to be checked constantly, a series of publications revealing characteristics of railroads, revenues, tonnage, types of equipment used by mileage, States, and so on.

Mr. EVINS. Why don't you just promote Dr. Margolin and you will have your man. You don't have to go outside and seek him.

Do you think you can find one outside better than he is?

Mr. WALRATH. I don't believe it, Mr. Evins. His energies are limited, too. He is going in many directions at the same time.

Mr. EVINS. He can train some of these young men you have here.

LENGTH OF SERVICE OF CONSULTANTS

Mr. WYMAN. What is the limitation on who you can hire in terms of numbers and for how long at $100 a day?

Mr. SCHMID. There is no limitation in dollars. We have authority to hire someone not to exceed $100 a day. As long as we have the money we can hire then. Consultants are not allowed to be employed for more than 1 year on a temporary basis.

Mr. THOMAS. Is there a 6-month limitation?

Mr. SCHMID. It is 1 year.

Mr. WALRATH. And it is a full-time job.

Mr. OSTERTAG. That is within the amount of money you have for that purpose, is it not?

Mr. SCHMID. That is right.

Mr. EVINS. There has been no charge that the Interstate Commerce Commission is not looking after the public interest in these merger matters, is there?

Mr. WALRATH. Yes, sir; unjustified, however. When these commuters suffer as a train goes off, or when a service is combined with another one which bypasses them, they think we have overlooked the public interest.

Then in the labor field, despite our role, they say we failed to help the public interest. We say there is no justification but it is questioned.

Mr. EVINS. You don't have to put in a lot of facts. It is up to the judgment of the Commission to protect the public interest.

Mr. WALRATH. It would vary from case to case. Where there are insufficient parties in a case to develop a complete record, then our economic counsel would provide the function of making certain that had been done.

Where their people claim certain economies without a loss of service, and opponents claim that is not correct, in that event we would make studies to find out the true facts and be sure it is all reflected in the record before us.

Mr. EVINS. Does not your General Counsel represent the public interest?

Mr. WALRATH. Our General Counsel is not in those for the reasons he explained to the chairman. He does not take a partisan position in any event. He is our counsel to advise us.

Up to now we have had to meet this interim emergency situation. We have had to borrow people from enforcement work and ask them to get into the big merger cases.

Mr. EVINS. Two railroads want to merge. They will give their reasons for it and set forth all the facts and information in their behalf.

Mr. WALRATH. That is right.

Mr. EVINS. Who puts in information in behalf of the opposition to the merger?

Mr. WALRATH. Normally from groups of shippers who feel they will be bypassed when the services are combined and the labor interests who claim there will be losses of jobs in order to effect these economies. Each of those groups——

Mr. EVINS. I know they will put in testimony but who pleads their case?

Mr. WALRATH. That is the purpose of the economic counsel, to represent the broad public interest.

Mr. GOFF. If I might interrupt, of course, you must understand that the States appear, the cities appear, and they both have their attorneys. In one of these mergers invariably there is a lot of municipal and State representation.

Mr. EVINS. You feel after having all the States, all the cities, and all the organizations, you still need another man to put something in the record to tell the Commission whether the merger should take place or not?

Mr. GOFF. We don't believe in the ordinary case that that is true, but we want to be sure that no facet of the public interest has been omitted. I will answer unequivocably I don't go for the program of

having a public defender, a public counsel. The history of all those organizations has been that you just have another party in another case. They finish this and have another. You build up a bureaucracy of people who say they represent the public.

It is the job of the Commission to represent the public.

Mr. EVINS. You have Mr. Margolin here to advise you on these matters. I am openminded on the matter. I want to know if you need another man besides Mr. Margolin.

Mr. GOFF. Of necessity Mr. Margolin is doing a research job.

When there is a series of facts which should be before the Commission which has not been put in, that is a lawyer's job to appear in the case.

Mr. THOMAS. How often do you find that the parties in interest overlook any points which are in their best interest? Is that an exception?

Mr. GOFF. Very much so.

Mr. THOMAS. When you get a brief and both parties go at it, usually can you cut out about 50 or 60 percent of the material and save time but still get all the facts?

However, in their desire not to overlook anything you get a big record. You can safely assume 99 times out of 100 when the parties get through each side has put forth its best foot. Is that generally true?

Mr. GOFF. In general, it is true. However, our job is to be careful.

Mr. THOMAS. Could your people be more careful than the parties directly in interest?

Mr. WALRATH. The charge made from outside is that those are partisan views. Sometimes the little fellows, who in the aggregate constitute as much public interest as others, feel they are not represented.

I agree with Brother Goff this is not an approach to public counsel.

Mr. THOMAS. There is some narrow segment overlooked in these particular cases? You have a lot of what we call interpleaders. Everybody has an interest, whether he is large or small. If it is important, he will be there and he will ask the Commission for the privilege of coming in. I imagine they are welcome. That is where you get every angle of the case, and that is where you get the 16,000-page records.

Mr. WALRATH. We have another party in most merger cases now, and that is the Department of Justice. They are active parties, too.

Mr. THOMAS. We are not arguing with you as to whether we think well of it or not. We try to go along with the Commission's desire to do its job. We want to help you.

Go ahead.

Mr. WALRATH. Just to close that subject for the moment, I think I could agree with every question you have asked. We think we are the representatives of the public interest and we think we have done that job in most cases. However, the people outside who view those things and who may suffer some inconvenience as a result of our action, and who were not able to employ counsel to be in there, feel we have fallen short, and have stated so. We don't believe we have.

On the balance of the points I touched on in here, we discussed briefly the increase in workload and in rate adjustments which is put-

ting more than a human strain on the Board of Suspension and their personnel. We are asking for a small increase there.

In the Bureau of Motor Carriers we are asking for a small increase.

ELECTRONIC COMPUTER EQUIPMENT

Mr. THOMAS. How much electronic computing equipment do you use in that division? Can it be used advantageously?

Mr. WALRATH. We are doing that. Mr. Margolin will speak to that. On page 16 of my prepared statement there is an approach to it.

Mr. MARGOLIN. We just recently had installed an RCA–301 computer, a medium-sized computer. We have that now in the process of conversion activities.

Mr. THOMAS. Are you the rate man, too, besides the research man?

Mr. MARGOLIN. Just a research man trying to get the facts and figures before the Commission.

Mr. THOMAS. You are indispensable. Go ahead.

Mr. MARGOLIN. Thank you. With that new equipment we have much greater capacity than we had before. We have this without any additional cost. This means we will be able to provide more efficiently and expeditiously information that we couldn't before.

Mr. THOMAS. Is this on rates and tariff schedules?

Mr. MARGOLIN. I am referring to some of the manual work we have to do in processing reports. Bit by bit we will convert that to the computer. A lot of the output will be coming out in typed form rather than prepared manually.

COMPUTER STUDIES

Mr. SCHMID. I would like to mention one other thing in this regard. We have a staff, and this staff is studying selective operations throughout the Commission in tariff work——

Mr. THOMAS. What have you come up with?

Mr. SCHMID. Good results.

Mr. THOMAS. What activities out there show the most promise of cutting down your backlog, time lag, and so on?

Mr. SCHMID. The best example we have had so far is where we have successfully developed a means where computers can be used in cost work.

Mr. THOMAS. What do you mean by that?

Mr. SCHMID. Cost finding work, cost information generally used in our rate work.

Mr. THOMAS. You have so many schedules and tariff changes, whether it involves railroads or buses or trucks. When you get to that part of the budget you have some very staggering figures. I have doubts about what they mean. Why can't you get some computers to do this for you?

Mr. SCHMID. We are working on it now.

Mr. THOMAS. For how long?

Off the record.

(Discussion held off the record.)

Mr. SCHMID. We think it can be done and we are trying to find out how. The Bureau of Standards is working with our staff.

Mr. THOMAS. How much do you transfer to them in the way of cash for this work?

Mr. SCHMID. About $34,000 last year for personal services and for the use of their equipment.

Mr. THOMAS. What are they doing for you? How long have they been working on it?

Mr. SCHMID. About a year now. They are working under Mr. Ryan.

Mr. THOMAS. Tell us about it, Mr. Ryan.

Incidentally, Mr. Ryan, you do a tremendous job. Your budget is very good. The amount of detail work which goes into these tables shows that you deserve A-plus.

Mr. WALRATH. He writes it so even I can understand it, sir.

Mr. RYAN. In 1961 the Commission approved a plan for setting up a small group of employees trained in automatic data processing systems with the Standards Bureau supplying the guidance to study certain areas where it appeared that automatic data processing would be possible.

The one we thought would be the best field was cost-finding work where the Section of Cost Finding has developed certain cost formulas which it uses in connection with the rail rate cases, motor rate cases, and also they have recently come up with a cost formula for water carriers.

When a rate is filed with the Bureau of Traffic, if it is protested, it goes to the Board of Suspension. This Board looks at that rate as to whether it is a compensible rate. They get information from the cost section——

Mr. THOMAS. If I may interrupt you, the basis of your rates and suspensions all goes back to cost, does it not?

Mr. RYAN. That is right.

Mr. THOMAS. You have to do your original cost work to figure out whether the rate is unreasonable, and so on. Your initial step is in the cost.

Mr. RYAN. At this point, yes, sir.

Mr. THOMAS. What other point is there? That is about most of it, is it not? A carrier's cost has gone up. What else is there to decide?

Mr. RYAN. There are a lot of judgment factors.

Mr. THOMAS. What are the judgment factors?

Mr. RYAN. I would rather the Chairman of the Commission answer that.

Mr. WALRATH. I will say this and then go back to Mr. Ryan.

Mr. THOMAS. Go ahead.

Mr. WALRATH. I am like the agency you mentioned a while ago. We have not found the electric brain to make the decisions for us, but the brain will do what Mr. Ryan explained it will do, the manual work which heretofore had to be done in order to furnish the suspension board and then give us an accurate analysis of the cost factor.

Mr. THOMAS. Can you come up with a black and white figure on cost?

Mr. WALRATH. That is what it amounts to. It comes out with an answer that no one can challenge.

Mr. THOMAS. There is a gray area there, and within that area that is where the Commission has to exercise judgment.

Mr. WALRATH. That is right. When all the facts are before the Board of Suspension or the Division, that is where the brain ends and the human factor comes into play.

Mr. THOMAS. Let us return promptly at 1 o'clock.

AFTERNOON SESSION

Mr. THOMAS. Will the committee please come to order.

Mr. Chairman, had you finished your statement?

Mr. WALRATH. I had substantially finished, Mr. Chairman. We had gotten down to the point of the automatic data processing study, and I believe we gave you answers to that unless you have further questions.

On the Office of the Secretary there is a very short paragraph at the bottom of page 16.

On the last full page, page 17, we break down that figure of $174,378 for you to show at a glance what that consists of.

Then on page 18, Mr. Chairman, I get to the point I wanted to thank you for being so patient up to this point and to offer ourselves for questions.

Mr. THOMAS. You made a very fine statement and we appreciate your frankness and your help and good judgment, you, Judge Goff and all the rest of you.

Mr. Jonas, if you have no general questions take up four or five activities in the justification and I will follow up. I would suggest you put some of these tables in the record particularly the summary tables.

COMPARISON OF 1963 AND 1964 BUDGETS BY OBJECT CLASSIFICATION

Mr. JONAS. Well, there is a very good summary table here at the beginning, page I. I think we should have it in the record.

(The page referred to follows:)

SALARIES AND EXPENSES, INTERSTATE COMMERCE COMMISSION

	1963 estimate	1964 estimate
Appropriation or estimate	[1] $23,550,000	[2] $25,450,000

[1] Includes an estimated supplemental appropriation of $944,000 for cost of pay increases authorized by Public Law 87-793, approved Oct. 11, 1962.

[2] Excludes an estimate of $175,000 and 15 positions for emergency preparedness functions for which reimbursement will be received from the Office of Emergency Planning.

Obligations by objects

Object classification	1963 estimate	1964 estimate
Number of permanent positions:		
Departmental	1,650	1,703
Field	817	837
Total	2,467	2,540
Average number of all employees	2,426	2,481
11 Personnel compensation	$19,647,529	$21,261,207
12 Personnel benefits	1,454,244	1,566,188
21 Travel and transportation of persons	1,310,620	1,345,320
22 Transportation of things	26,700	25,935
23 Rent, communications, and utilities	332,207	356,250
24 Printing and reproduction	213,400	232,000
25 Other services	102,900	125,600
26 Supplies and materials	260,370	272,770
31 Equipment	202,030	264,730
Total obligations	23,550,000	25,450,000

Mr. JONAS. I do not think we can get this big table in page 1, but it is a fine one.

ORGANIZATIONAL CHARTS

Mr. THOMAS. And take a look at the organization chart in the back. It is a very excellent chart. If that can be photostated and compressed, it should be put in the record.

Mr. JONAS. There are two pages to it.

Mr. THOMAS. Yes, one is field operations and one is departmental.

(The charts referred to were filed with the committee.)

COMPARISON OF POSITIONS AND COSTS, 1963 WITH 1964

Mr. JONAS. This table on page 2 also contains a mass of information that would be helpful to those who read the record. I think it should be in also.

(The page referred to follows:)

INTERSTATE COMMERCE COMMISSION

Comparison of estimated number of positions and total obligations by activities for fiscal year 1963 with 1964, including the component bureaus, sections, and offices of each activity

Activity number, title, and component bureaus, sections, and offices	Fiscal year 1963		Fiscal year 1964 [1]		Comparison, 1963 with 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
1. Regulation of carriers' rates, practices, operating authorities, and finance:						
Bureau of Accounts: Section of Cost Finding	45	$360,919	47	$399,047	+2	+$38,128
Bureau of Finance	98	1,179,126	103	1,288,683	+5	+109,557
Bureau of Operating Rights	210	2,264,416	228	2,501,686	+18	+237,270
Bureau of Rates and Practices	107	1,284,367	107	1,357,196	----	+72,829
Bureau of Traffic:						
Board of Suspension	48	415,323	52	467,042	+4	+51,719
Fourth Section Board	11	113,809	11	120,252	----	+6,443
Commissioners and their offices: Adjudicatory activities	79	902,276	79	943,208	----	+40,932
Office of the Managing Director: Section of Administrative Services: Stenographic Branch	35	170,898	35	180,526	----	+9,628
Office of the Secretary: Section of Dockets	100	505,178	100	534,060	----	+28,882
Printing and reproduction	----	80,000	----	113,000	----	+33,000
Total, activity No. 1	733	7,276,312	762	7,904,700	+29	+628,388
2. Compliance:						
Bureau of Inquiry and Compliance	101	1,106,322	109	1,222,597	+8	+116,275
Bureau of Motor Carriers:						
Director's office	10	96,584	10	101,571	----	+4,987
Interpretations staff	9	78,018	9	82,638	----	+4,620
Section of Insurance	31	192,160	31	203,169	----	+11,009
Section of Motor Carrier Safety	43	297,354	45	324,663	+2	+27,309
Section of Field Service	431	3,875,460	436	4,118,258	+5	+242,798
Bureau of Water Carriers and Freight Forwarders	15	153,515	15	162,103	----	+8,588
Printing and reproduction	----	6,000	----	8,800	----	+2,800
Travel of witnesses	----	5,000	----	5,000	----	----
Total, activity No. 2	640	5,810,413	655	6,228,799	+15	+418,386
3. Supervision and analysis of carriers' accounting and statistics:						
Bureau of Accounts (except Section of Cost Finding)	133	1,392,708	142	1,558,344	9	+165,636
Bureau of Transport Economics and Statistics	180	1,359,185	188	1,504,737	8	+145,552
Printing and reproduction	----	26,400	----	26,400	----	----
Total, activity No. 3	313	2,778,293	330	3,089,481	+17	+311,188
4. Supervision and interpretation of tariffs:						
Bureau of Traffic (except Board of Suspension and Fourth Section Board)	196	1,484,197	196	1,568,734	----	+84,537
Printing and reproduction	----	----	----	----	----	----
Total, activity No. 4	196	1,484,197	196	1,568,734	----	+84,537
5. Railroad safety and car service:						
Bureau of Safety and Service:						
Director's office [2]	7	(71,049)	7	(75,034)	----	+(3,985)
Car service	92	1,087,400	92	1,142,385	----	+54,985
Locomotive inspection	105	1,216,000	105	1,276,000	----	+60,000
Railroad safety	144	1,816,000	144	1,918,000	----	+102,000
Printing and reproduction	----	----	----	----	----	----
Total, activity No. 5	348	4,119,400	348	4,336,385	----	+216,985

See footnote at end of table, p. 422.

Comparison of estimated number of positions and total obligations by activities for fiscal year 1963 with 1964, including the component bureaus, sections, and offices of each activity—Continued

Activity number, title, and component bureaus, sections, and offices	Fiscal year 1963		Fiscal year 1964 [1]		Comparison, 1963 with 1964	
	Positions	Amount	Positions	Amount	Positions	Amount
6. Executive and advisory functions:						
Commissioners and their Offices: Chairman, Vice Chairman and their staffs	23	$243,357	23	$255,341	----------	+$11,984
Office of the Secretary (except Section of Dockets)	73	474,290	75	512,309	2	+38,019
Office of the General Counsel	22	262,987	29	336,159	7	+73,172
Printing and reproduction	----------	23,500	----------	4,500	----------	−19,000
Total, activity No. 6	118	1,004,134	127	1,108,309	+9	+104,175
7. General management and administration:						
Office of the Managing Director:						
Office	10	113,024	13	147,655	+3	+34,631
Administrative Services (except Stenographic Branch)	57	373,863	57	388,245	----------	+14,382
Budget and Fiscal Office	32	236,751	32	250,128	----------	+13,377
Personnel Office	20	171,328	20	181,164	----------	+9,836
Official mail	----------	73,477	----------	82,000	----------	+8,523
Payments to other agencies	----------	31,308	----------	85,100	----------	+53,792
Printing and reproduction	----------	77,500	----------	79,300	----------	+1,800
Total, activity No. 7	119	1,077,251	122	1,213,592	+3	+136,341
Total, Interstate Commerce Commission	2,467	23,550,000	2,540	25,450,000	+73	+1,900,000

[1] Excludes reimbursement of $175,000 from Office of Emergency Planning for emergency preparedness functions.
[2] Cost of operation of this office is prorated equally among the three sections of the Bureau of Safety and Service.

SUMMARY OF ESTIMATED OBLIGATIONS FOR 1964 BY BUREAU OR OFFICE

Mr. JONAS. Mr. Chairman, I do not know if you want all these tables in.

Mr. THOMAS. No. They are good, though.

Mr. JONAS. There is an excellent table on page 3. It has virtually the same information but it is broken down more. We will put that in.

(The page referred to follows:)

Summary of estimated obligations for the fiscal year 1964 by objects and functions [1]

Bureau or office	Personal services and benefits		Other objects										Total obligations
	Positions	Amount	Travel and transportation of persons	Transportation of things	Rent, communications, and utilities			Printing and reproduction	Other services	Supplies and materials	Equipment	Total, other objects	
					Rent	Communications	Official mail						
Commissioners and their offices	102	$1,154,648	$15,000			$8,056			$2,402	$10,908	$7,535	$43,901	$1,198,549
Managing director:													
Office	13	141,722	1,100			826			339	1,396	2,272	5,933	147,655
Administrative services	92	553,662	800			4,030			1,303	5,207	3,769	15,109	568,771
Budget and Fiscal Office	32	242,285	800		$456	1,841			647	2,378	1,721	7,843	250,128
Personnel Office	20	174,147	1,000			1,242			2,011	1,603	1,161	7,017	181,164
Total, Managing Director	157	1,111,816	3,700		456	7,939			4,300	10,584	8,923	35,902	1,147,718
Secretary:													
Office	21	170,039	150			1,084			305	4,230	4,505	10,274	180,313
Dockets	100	520,867	500			3,618			1,018	4,674	3,383	13,193	534,060
Mails and files	30	143,804	350			994			279	1,284	930	3,837	147,641
Reference services	24	178,681				1,268			400	1,821	2,185	5,674	184,355
Total, Secretary	175	1,013,391	1,000			6,964			2,002	12,009	11,003	32,978	1,046,369
Office of the General Counsel	29	311,183	12,600			2,118			603	3,784	5,871	24,976	336,159
Accounts	189	1,758,309	140,600	$3,991	5,400	11,960			3,650	16,799	16,682	199,082	1,957,391
Finance	103	1,229,636	26,000			8,435			2,377	11,845	10,390	59,047	1,288,683
Inquiry and compliance	109	1,107,016	74,200	3,037	3,600	7,565			3,014	12,976	11,189	115,581	1,222,597
Motor carriers:													
Director's office	10	91,205	4,710			673			189	4,166	628	10,366	101,571
Interpretations staff	9	80,651				566			160	731	530	1,987	82,638
Insurance	31	197,316	1,060			1,366			384	1,765	1,278	5,853	203,169
Motor carrier safety	45	299,739	4,500		11,640	2,128			736	2,932	2,988	24,924	324,663
Field	436	3,542,925	259,730	11,613	3,016	25,514			67,524	101,163	106,773	575,333	4,118,258
Total, motor carriers	531	4,211,836	270,000	11,613	14,656	30,247			68,993	110,757	112,197	618,463	4,830,299
Operating rights	228	2,306,850	127,600			16,014			4,633	22,616	23,973	194,836	2,501,686
Rates and practices	107	1,309,053	16,500			8,854			2,886	11,622	8,281	48,143	1,357,196

Summary of estimated obligations for the fiscal year 1964 by objects and functions [1]—Continued

Bureau or office	Personal services and benefits		Other objects										Total obligations
	Positions	Amount	Travel and transportation of persons	Transportation of things	Rent, communications, and utilities			Printing and reproduction	Other services	Supplies and materials	Equipment	Total, other objects	
					Rent	Communications	Official mail						
Safety and services:													
Director's office [2]	7	($72,640)	($2,394)									($2,394)	($75,034)
Car service	92	1,000,041	115,000	$1,111		$7,137			$2,030	$10,392	$6,674	142,344	1,142,385
Locomotive inspection	105	1,035,720	220,870	3,200		3,000	$3,660		600	1,630	7,320	240,280	1,276,000
Railroad safety	144	1,596,575	302,550	2,935		1,400	5,490		600	3,240	5,210	321,425	1,918,000
Total, safety and service	348	3,632,336	638,420	7,246		11,537	9,150		3,230	15,262	19,204	704,049	4,336,385
Traffic	259	2,101,150	1,000			14,635			4,166	19,390	15,687	54,878	2,156,028
Transport economics and statistics	188	1,362,540	8,000		$96,188	9,405			3,043	12,768	12,793	142,197	1,504,737
Water carriers and freight forwarders	15	152,531	5,700	48		1,071			301	1,450	1,002	9,572	162,103
Special items:													
Official mail							82,000					82,000	82,000
Payments to other agencies		65,100							20,000			20,000	85,100
Printing and reproduction								$232,000				232,000	232,000
Travel of witnesses			5,000									5,000	5,000
Total Interstate Commerce Commission	2,540	22,827,395	1,345,320	25,935	120,300	144,800	91,150	232,000	125,600	272,770	264,730	2,622,605	25,450,000

[1] Excludes reimbursement of $175,000 from Office of Emergency Planning for emergency preparedness functions.

[2] Cost of operation of this office is prorated equally among the three sections of the Bureau of Safety and Service.

COMMISSIONERS AND THEIR OFFICES

Mr. JONAS. Now we will take up the Commissioners and their offices. There is a slight change there. They are asking for only a small increase of $52,916. Insert page 4 in the record.

(The page referred to follows:)

COMMISSIONERS AND THEIR OFFICES

This function includes the Commissioners, their private secretaries, attorney-advisers and the stenographic and clerical help required in their offices.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	102	102	0
Personnel compensation	$1,025,409	$1,074,909	+$49,500
Personnel benefits	76,323	79,739	+3,416
Total personal services and benefits	1,101,732	1,154,648	+52,916
Travel	15,000	15,000	0
Total	1,116,732	1,169,648	+52,916

The increase of $52,916 for personal services and benefits is for 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793.

The 1964 budget provides 102 positions for these offices which is the same as authorized for the current fiscal year, and are separated by categories as follows:

Commissioner	11
Legislative attorney	1
Liaison officer	1
Attorney-adviser	39
Private secretary	11
Secretarial assistant	11
Secretary-stenographer	1
Clerk-stenographer	11
Clerk and typist	16
Total	102

Commissioners have individual responsibility for the preparation of final reports in assigned cases. These cases generally are those which have been the subject of an oral hearing and which require a division or Commission report. The attorney-advisers review reports and memorandums submitted to the Commissioners for their action and perform such other duties as are directed by the Commissioners.

The secretarial assistants take dictation from the Commissioners and maintain the files in their offices. The clerk-stenographers take dictation from the examiners and handle such other work as may be assigned to them by the examiners or by the private secretary.

Mr. THOMAS. They do not have but 102 employees but when you add them all up together there are in excess of 156 people doing all the managerial work.

Mr. JONAS. Is that not an overbalanced condition?

Mr. WALRATH. You are talking about the Commissioners' offices?

Mr. JONAS. Yes. Give us some justification for that.

Mr. WALRATH. I can speak primarily of my office and that is multiplied by 11 with very little variation.

I have three attorney advisers, a secretary, a stenographer, and a typist. I also have a clerk-typist who serves a dual function of messenger and carrying my papers around.

Mr. JONAS. Do you bring those lawyers to advise you in courtwork? You cannot use three? Suppose they give you conflicting advice, which do you follow?

Mr. WALRATH. While they are not specialists, you tend to assign certain kinds of cases to one and other types to another. We have to work on a number of things at the same time and it keeps them busy.

Since I have become Chairman I have one additional typist because the paperwork in the Chairman's office is quite heavy.

My staff, I think, is typical of the 11 Commissioners.

Mr. JONAS. You are not asking for additional people?

Mr. WALRATH. No.

Mr. JONAS. The increase you are asking for is accounted for by the fact there are 2 extra days to be compensated for?

Mr. WALRATH. Plus the increase in salary scale.

Mr. JONAS. How much of that increase did you absorb last year?

Mr. SCHMID. We absorbed $12,000 for the current year.

Mr. JONAS. Did not the President issue a directive calling on you to absorb it?

Mr. SCHMID. Yes, we got the same letter the other agencies received. However, we were able to show the Bureau of the Budget that any absorption of pay increase would seriously impair the Commission's ability to handle the workload.

TOTAL VACANCIES

Mr. JONAS. How many vacancies did you have on your rolls on January 1?

Mr. SCHMID. About 50, which is our normal lapse figure.

Mr. JONAS. Do you have 50 vacancies almost all the time?

Mr. SCHMID. That is correct. These positions are unfinanced.

OFFICE OF THE MANAGING DIRECTOR

Mr. JONAS. The Managing Director has some responsibilities. You say in the justifications he is the chief official in charge of the internal management of the Commission's staff organization. That is really a housekeeping activity; is that correct?

Mr. SCHMID. Yes, sir.

Mr. JONAS. He has a staff of only 13. You have more people than that engaged in the housekeeping activity?

Mr. SCHMID. That is correct, because under the Office of the Managing Director are the Section of Administrative Services, Budget and Fiscal Office, and the Personnel Office. And 6 of those 13 people are engaged in automatic data processing studies.

Mr. JONAS. You are asking for an increase of $32,219 in that Office the next year?

Mr. SCHMID. That is correct.

Mr. JONAS. And 13 of your new positions are allocated to this activity?

Mr. SCHMID. Three. There is an increase of three.

Mr. JONAS. Would that bring it up to 13 or 3 above 13?
Mr. SCHMID. It brings it up to 13.
Mr. JONAS. The 13 figure is a projected figure for 1964?
Mr. SCHMID. That is correct.
Mr. JONAS. Let us put this table on page 5 in the record.
(The page referred to follows:)

OFFICE OF THE MANAGING DIRECTOR—MANAGING DIRECTOR'S OFFICE

The Managing Director is the chief official in charge of the internal management of the Commission's staff organization. Under policies established by the Commission, he administers, plans, manages, directs, and coordinates the administrative activities of all bureaus and offices, and supervises the activities relating to the Commission's budget, personnel, and administrative and central stenographic services. Under the Office of the Managing Director are the Section of Administrative Services, Budget and Fiscal Office, and the Personnel Office.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	10	13	+3
Personnel compensation	$101,917	$130,156	+$28,239
Personnel benefits	7,586	11,566	+3,980
Total personal services and benefits	109,503	141,722	+32,219
Travel	1,100	1,100	0
Total	110,603	142,822	+32,219

The increase of $32,219 for personal services and benefits is primarily for the three additional positions, 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87-793.

The 1964 budget provides 13 positions which is 3 more than authorized for the current fiscal year. These positions are separated by categories as follows:

Managing Director	1
Assistant to Managing Director	1
Special assistant	2
Systems analyst	6
Administrative assistant	2
Clerk-typist	1
Total	13

During the fiscal year 1962 the Commission organized and assigned to a small staff the work involved in extending automatic data processing techniques to its various operations. Arrangements were made with the National Bureau of Standards for the assignment of one full-time and two part-time representatives to work with the Commission's staff. The assistance of the National Bureau of Standards will be required for the entire fiscal year 1964.

The ADP staff commenced immediately to progress three assigned priority areas. As of June 30, 1962, all three areas have had substantial work done but the accomplishments with respect to cost finding activities border on the dramatic. Two cost formulas, one for rail ratemaking matters and the other for motor carrier ratemaking which had historically been applied on a manual basis were automated for a computer. Personnel resources savings are substantial but more important, these routines provide a capability of producing timely data which in turn is vital to the disposition of ratemaking problems.

The 1964 budget provides for payment to the National Bureau of Standards for the detail of three technicians with appropriate backup personnel at a cost of $65,100. It also includes $20,000 for machine testing and runs on equipment in service centers. The three additional positions requested for 1964 are to provide additional expert subject matter support.

Office of the Secretary

Mr. Jonas. What about the Office of the Secretary? Briefly, what are his responsibilities? Are they those set out on page 16 of the justification?

Mr. McCoy. That is correct. That is a very good statement.

Mr. Jonas. You are asking for an increase of $9,346?

Mr. McCoy. That is for new attorneys to do the index digesting of the Commission's reports.

Mr. Jonas. How many attorneys are on your staff now?

Mr. McCoy. Twelve.

Mr. Jonas. We will place page 16 of the justifications in the record, which contains a succinct statement of the duties of the Office of the Secretary. Also include the narrative on the other three activities under the Office of the Secretary.

(The material referred to follows:)

Office of the Secretary

The Office of the Secretary consists of the Commission's Secretary and his office, the Sections of Dockets, Mails and Files and Reference Services. The Section of Reference Services is chiefly responsible for publication of the bound volumes of Commission reports and the Interstate Commerce Act Annotated.

Secretary's Office

All Commission announcements, whether by the entire Commission, divisions, individual Commissioners, boards of employees, or individuals, are made through this office. Information and public relations programs relating to the Commission's quasi-judicial and quasi-legislative functions are planned, coordinated and put into effect by this office.

The Secretary's Office also prepares certification of copies of, or extracts from, any records filed with the Commission, under the Commission's seal, for use in judicial proceedings and/or other purposes. Other duties include preparation of the Commission's official minutes, and a variety of special duties assigned by the Commission as occasions arise from time to time.

The Secretary also serves as a consultant and adviser to the Commission and is personally called upon for advice respecting a wide diversity of legal problems.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	21	21	0
Personnel compensation	$149,852	$158,604	+$8,752
Personnel benefits	10,841	11,435	+594
Total personal services and benefits	160,693	170,039	+9,346
Travel	150	150	0
Total	160,843	170,189	+9,346

The increase of $9,346 for personal services and benefits is for two extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793.

Section of Dockets

This section is engaged in examining, docketing, and recording all complaints, answers, petitions, applications, motions, and other formal papers offered for filing with the Commission; conducting correspondence relating to pleading and practice; and preparing oral argument calendars. All service of decisions, rules, orders, notices, and other processes by regular mail, registered mail, or personal

service upon designated agents of carriers, according to the requirements of the law, is performed by this section. Transcript of hearings and arguments, including all exhibits filed in connection therewith, are checked. Applications for admission to practice before the Commission are examined and recorded, and enrollments of practitioners are recorded. The section is also responsible for the recordation of documents evidencing the lease, mortgage, etc., of railroad equipment and for maintaining an index of such documents required to be filed under regulations prescribed by the Commission pursuant to section 20c of the Interstate Commerce Act.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	100	100	0
Personnel compensation	$457,982	$485,000	+$27,018
Personnel benefits	34,003	35,867	+1,864
Total personal services and benefits	491,985	520,867	+28,882
Travel	500	500	0
Total	492,485	521,367	+28,882

The increase of $28,882 for personal services and benefits is for 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87–793.

SECTION OF MAILS AND FILES

This section handles all incoming and outgoing telegrams, mail, and express shipments for the Commission's office in Washington; refers correspondence, pleadings, etc., in formal and informal proceedings and letters pertaining to general administrative matters to the proper bureau or office; records selected correspondence and documents and maintains selected general files.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	30	30	0
Personnel compensation	$126,339	$133,877	+$7,538
Personnel benefits	9,405	9,927	+522
Total personal services and benefits	135,744	143,804	+8,060
Travel	350	350	0
Total	136,094	144,154	+8,060

The increase of $8,060 for personal services and benefits is primarily for two extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87–793.

SECTION OF REFERENCE SERVICES

The major functions of this section are to provide legal reference services, publish bound volumes of Commission reports and the Interstate Commerce Acts Annotated, and maintain the library as a current working collection of books, periodicals, and pamphlets dealing with transportation law, as well as economics, statistics, safety, finance, etc., in the transportation field.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	22	24	2
Personnel compensation	$148,643	$166,380	+$17,737
Personnel benefits	11,033	12,301	+1,268
Total personal services and benefits	159,676	178,681	+19,005

The increase of $19,005 for personal services and benefits is primarily for the two additional positions requested, two extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87-793. The 1964 budget provides 24 positions for this section, which is an increase of two over the 22 positions authorized for the current fiscal year. These positions are separated by categories as follows:

Chief of section	1
Attorney-adviser	4
General attorney	8
Editorial clerk	4
Legal assistant	1
Librarian	2
Library assistant	2
Clerk-stenographer	1
Clerk-typist	1
Total	24

The additional positions requested are two GS-7 general attorneys to bring index-digesting of Commission reports to a current basis.

Mr. JONAS. What is the total number of positions in the Office of the Secretary?

Mr. THOMAS. 175.

Mr. JONAS. Off the record.

(Discussion off the record.)

Mr. MCCOY. I think the difference is in the immediate office of the Secretary and the work that is done under the direction of the Secretary.

Mr. JONAS. You refer now to the section of dockets, section of mails and files, and section of reference services?

Mr. MCCOY. Yes.

Mr. JONAS. Those three services are performed under the jurisdiction and supervision of the Secretary?

Mr. MCCOY. That is correct.

Mr. JONAS. The total, then, in the Secretary's Office in the three sections would be 100 in the section of dockets, plus 30 in the section of mails and files, plus 24 in the section of reference services?

Mr. RYAN. 173 in fiscal 1963 and 175 for fiscal 1964.

Mr. JONAS. You are asking for two additional people in all the sections under the Secretary?

Mr. RYAN. Yes. Those are two attorneys for the Section of Reference Services.

Mr. BOLAND. How many do you have on board as of January 1 in this particular activity in the Secretary's Office and the Section of Mails and Files and the Section of Reference Services?

Mr. RYAN. 166.

Mr. BOLAND. As of January 1?

Mr. RYAN. As of January 19, sir. We have a ceiling of 173.

Mr. BOLAND. You do not need additional personnel there, do you?

Mr. RYAN. There is always a lapse there. These are two lawyers for the Reference Services where we have a ceiling of 22 and the on-board figure is 21.

LEGAL STAFF IN OFFICE OF THE SECRETARY

Mr. JONAS. You really do not need a heavy complement of lawyers in the Office of the Secretary, do you? Nor do you need them in the Section of Mails and Files?

Mr. McCoy. We do not have lawyers there, only in the Section of Reference Services.

Mr. Jonas. How many lawyers do you have in that section now?

Mr. Ryan. Twelve lawyers.

Mr. Jonas. What do they do?

Mr. McCoy. They do the index digesting of the Commission's reports to make that information available to the staff of the Commission.

Mr. Goff. They are not in high civil service grades.

Mr. McCoy. They are in the beginning grades.

Mr. Jonas. They are beginners. You are looking for young law school graduates who have not started practicing?

Mr. Goff. Yes.

Mr. McCoy. And it is a training ground for other jobs in the Commission.

Mr. Jonas. Now you put your finger on it.

Mr. McCoy. If it turns out to be that way.

Office of the General Counsel

Mr. Jonas. We have already talked about the Office of the General Counsel. I do not think we need to go into details with respect to that Office, but I think it should be said in summary or review that you have 29 people on your staff, Mr. General Counsel.

Mr. Walrath. Our General Counsel had a 48-hour notice to go to Detroit on the C. & O.–B. & O. case.

Mr. Ryan. He has 22 and we are requesting an increase of 7 positions.

Mr. Walrath. That Detroit matter was brought about by a suit entered by the railway labor people and our General Counsel had only a 48-hour notice to go and defend it.

Mr. Thomas. That is understandable.

Mr. Jonas. The paragraph beginning at the bottom of page 27 contains some information that I think would be helpful in understanding why you need such a large staff for the General Counsel. That paragraph reads:

> There were 124 cases attacking orders of the Commission instituted in the U.S. district courts during fiscal year 1962 as compared to 64 such cases instituted during fiscal year 1961 or an increase of 94 percent.

How do you account for that increase in the number of people who are questioning your decisions?

Mr. Walrath. That is a good question, Mr. Jonas. It is a matter of judgment on our part but we think we see the reasons. On page 13 of my prepared statement I sought to cover that. There has been, of course, an increase in court cases due to the intense intermodal and intramodal competition in the surface transportation industry.

The second phase is that our stepped-up enforcement activities against these illegal and questionable operators frequently end up in cease-and-desist orders and they do not give up easily, they go in court and we have to defend our actions.

Mr. Jonas. Seriously, I do not see how you can reconcile the advice you get from the various counsel. You have three lawyers on your

staff and you seek the opinion of the General Counsel and you cannot get unanimity of opinion from all of them.

Mr. WALRATH. It is not a matter of unanimity of opinion. The three men on my staff—and I think that is typical of the other Commissioners' offices—help me analyze the records before us and the reports my office receives, and they do an entirely different job than the General Counsel does. The General Counsel passes on technicalities for the entire Commission and then he in turn has to defend the orders of ours which are challenged and go to court.

CASELOAD—GENERAL COUNSEL

Mr. JONAS. Is there any backlog in that office? Is he abreast of his work?

Mr. WALRATH. No, sir. We are having trouble meeting deadlines. In the past few months, particularly, with the many cases pending in court he has had to work overtime to the point we have had extra printing costs on our briefs and pleadings.

Mr. JONAS. I think the table on page 30 would be appropriate to put in the record. It shows the actual figures for 1960, 1961, and 1962 and the estimates for 1963 and 1964 of cases at the beginning of the fiscal year, cases instituted during the year, cases concluded during the year, and cases pending at the end of the year.

(The table referred to follows:)

Office of the General Counsel caseload

	Actual			Estimate	
	1960	1961	1962	1963	1964
Cases at beginning of fiscal year	56	78	93	149	196
U.S. district courts	53	72	82	139	187
U.S. Court of Appeals		4	3	2	1
U.S. Supreme Court	3	2	8	8	8
Cases instituted during year	79	80	139	150	161
U.S. district courts	66	64	124	134	144
U.S. court of appeals	4	3	2	2	2
U.S. Supreme Court	9	13	13	14	15
Total number of cases in process during year	135	158	232	299	357
Cases concluded during year	57	65	83	103	123
U.S. district courts	47	54	67	86	105
U.S. court of appeals		4	3	3	2
U.S. Supreme Court	10	7	13	14	16
Cases pending at end of year	78	93	149	196	234
Opinions prepared on legal questions in Commission proceedings, legislative and advisory	164	214	272	300	325

Mr. JONAS. Are there any questions on the Office of the General Counsel?

Mr. THOMAS. Go to the big bureaus now.

Mr. JONAS. I will yield to Mr. Boland a while.

Bureau of Accounts

Mr. Boland. Bureau of Accounts. Put page 31 in the record.
(The page referred to follows:)

Bureau of Accounts

The principal functions are to (1) formulate and prescribe uniform systems of accounts for all types of carriers subject to the Interstate Commerce Act; (2) police the account of such carriers and ascertain that they conform to prescribe accounting regulations; (3) prescribe specific depreciation rates to be used by railroads, pipelines, and water carriers; (4) prepare studies and analyses of the cost and revenue from transportation services of the various types of carriers subject to the jurisdiction of the Commission and participate in hearings before the Commission; and (5) maintain inventories of carrier property and develop valuation data pertaining to railroads and pipelines.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	178	189	+11
Personnel compensation	$1,476,192	$1,637,616	+$161,424
Personnel benefits	109,198	120,693	+11,495
Total personal services and benefits	1,585,390	1,758,309	+172,919
Travel	125,000	140,600	+15,600
Total	1,710,390	1,898,909	+188,519

The increase of $172,919 for personal services and benefits is primarily for the 11 additional positions requested, 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793. The increase of $15,600 for travel expenses is requested to provide sufficient travel funds for the increased number of carriers' accounts to be examined by additional personnel requested for the Section of Field Service.

Mr. Boland. We note an increase of $188,519, mostly occasioned by 11 additional jobs, the pay increase and the 2 extra days in 1964. You had 178 positions in 1963 and are asking for 189 in 1964. That does not square with the number in the large chart on page 216. What is the discrepancy?

Mr. Ryan. This is the Washington staff and you have to add the field staff.

Mr. Boland. Put in pages 33 and 37.
(The pages referred to follow:)

Director's Office, Bureau of Accounts

This office includes the director and his assistants who are engaged principally in the supervision of the various sections of the bureau, and a clerical staff to perform stenographic, typing and routine administrative duties. Functions include planning of general and special work programs; holding staff conferences on policy and technical matters; reviewing legislative recommendations of the Congress to determine adequacy of accounting procedures affected by changes in laws; preparing work progress reports and recommendations to the Commission; developing programs for research involving major accounting issues, industry economic and cost trends and new technological changes; conducting meetings and advising officials. Commissioners, other bureau directors, Government agencies and others regarding accounting, cost finding, rates, legislative matters, field examinations, valuation and various administrative activities.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	11	11	0
Personnel compensation	$104,088	$110,338	+$6,250
Personnel benefits	7,755	8,187	+432
Total personal services and benefits	111,843	118,525	+6,682
Travel	1,000	1,000	0
Total	112,843	119,525	+6,682

The increase of $6,682 for personal services and benefits is for two extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793.

The 1964 budget provides 11 positions for this office which is the same as authorized for the current fiscal year. The positions are separated by categories as follows:

Director and assistant	3
Special assistant	1
Assistant to director	1
Administrative assistant	1
Clerks and stenographers	5
Total	11

Phases of work which can be expressed in work units are set forth in the following table:

	Actual			Estimate	
	1960	1961	1962	1963	1964
Review of proposed accounting required by Commission orders in cases covering abandonments of line, purchases, mergers, and consolidations of carriers properties and issuance of securities	448	535	502	575	600
Interpretations of the uniform systems of accounts and other regulations furnished carriers and public	920	1,247	1,201	1,300	1,400
Special accounting authorizations requiring approval of the Commission	29	54	26	65	65

Mr. BOLAND. Where are you putting this group of 11 you are requesting?

Mr. PAOLO. Two have been included in the Office of Cost Finding.

SECTION OF COST FINDING

Mr. BOLAND. Put in page 38 in the record.

(The page referred to follows:)

SECTION OF COST FINDING, BUREAU OF ACCOUNTS

The functions of this section embrace the development of cost formulas, preparation of cost studies, analyses of cost evidence, and related work for use in ratemaking proceedings and for release to the public.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	45	47	+2
Personnel compensation	$326,320	$360,409	+$34,089
Personnel benefits	24,306	26,737	+2,431
Total personal services and benefits	350,626	387,146	+36,520
Travel	1,000	1,000	0
Total	351,626	388,146	+36,520

The increase of $36,520 for personal services and benefits is primarily for the two additional positions requested, two extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793.

The 1964 budget provides 47 positions which represents an increase of 2 over the 45 authorized for the current fiscal year. These positions are separated by categories as follows:

Supervisory cost analyst	2
Cost analyst	38
Transportation economist	1
Secretary-stenographer	1
Statistical clerk and clerk	5
Total	47

The two additional positions are requested to enable the Bureau to develop new and revised cost formulas, to furnish more accurate and current cost data, to handle the increased workload anticipated for fiscal year 1964, and to expedite the analysis of costs introduced in Commission proceedings.

Phases of work which can be reflected in work units for the fiscal years 1960, 1961, and 1962 and estimates for the fiscal years 1963 and 1964 are as follows:

	Actual			Estimate	
	1960	1961	1962	1963	1964
1. Analyses of cost evidence in formal and I. & S. cases:					
On hand beginning of year	17	11	26	25	20
Received during year	110	133	134	152	172
Disposed of during year	116	118	135	157	185
On hand close of year	11	26	25	20	7
2. Territorial and special commodity studies:					
On hand beginning of year	6	7	7	9	11
Received during year	9	7	6	9	8
Disposed of during year	6	7	4	7	11
On hand close of year	[1] 9	7	9	11	8
3. Formulas and other special studies:					
On hand beginning of year	10	3	7	8	6
Received during year	18	9	8	6	5
Disposed of during year	24	5	7	8	8
On hand close of year	[2] 4	7	8	6	3
4. Investigation instituted by the Commission: [3]					
On hand beginning of year	-------	3	4	1	2
Received during year	-------	6	1	5	6
Disposed of during year	-------	5	4	4	5
On hand close of year	-------	4	1	2	3
5. Suspension and temporary authorities boards' cases:					
On hand beginning of year	0	0	0	0	0
Received during year	2,687	2,740	3,027	3,200	3,375
Disposed of during year	2,687	2,740	3,027	3,200	3,375
On hand close of year	0	0	0	0	0

[1] Includes docket No. 32385 and docket No. 32912, which are shown under item 4 in subsequent years.
[2] Includes docket No. 33145, which is shown under item 4 in fiscal year 1961 and thereafter.
[3] This relates to cases for which the Cost Finding Section prepares exhibits and testimony.

SECTION OF FIELD SERVICE

Mr. BOLAND. Put page 44 and the table on 46 having to do with the Section of Field Service in the record.

(The material referred to follows:)

SECTION OF FIELD SERVICE, BUREAU OF ACCOUNTS

The functions of this section are to conduct field examinations at scheduled intervals of the various types of transportation companies subject to the jurisdiction of the Interstate Commerce Commission and to perform special investigations requested by the Commission and other bureaus. The field examinations are conducted to (1) assure compliance with prescribed accounting and related regulations; (2) verify from source records that prescribed annual and interim financial reports filed with the Commission fairly and accurately present carriers' earnings and financial conditions; (3) verify the accuracy and completeness of property valuation reports filed by railroad and pipeline companies; (4) assist new carriers in setting up their accounting systems; and (5) ascertain that carriers are not violating regulations and laws pertaining to extension of credit, rebates and concessions, issuances of securities, unauthorized control of other carriers, and the Clayton Anti-Trust Act. Special investigations are made to obtain evidence for use in law-enforcement proceedings, and develop financial data for Commission proceedings involving such matters as issuances of securities, guarantee of loans, and mergers.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	65	74	+9
Personnel compensation	$565,005	$657,740	+$92,735
Personnel benefits	41,560	48,241	+6,681
Total personal services and benefits	606,565	705,981	+99,416
Travel	120,500	136,100	+15,600
Total	727,065	842,081	+115,016

The increase of $99,416 for personal services and benefits is primarily for the nine additional positions requested, 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87–793. The increase of $15,600 for travel is to provide sufficient travel funds for the additional positions requested.

The 1964 budget provides for 2 departmental positions and 72 field positions which represents an increase of 9 positions over the 1963 authorization.

Proposed field examination program

Examination interval by type of carrier	Number of carriers June 30, 1962	Annual target	Estimated man-days required [1]	Examinations completed fiscal year 1962
1-year basis:				
Railroads	67	67	7,296	33
Pipelines	93	93	893	22
Motor carriers	596	596	5,066	266
2-year basis:				
Railroads	73	37	551	26
Motor carriers	419	220	1,276	126
Water carriers	26	13	78	5
3- to 6-year basis:				
Railroads	501	114	593	81
Motor carriers	2,813	638	3,126	543
Water carriers	106	24	120	15
Others	133	33	188	8
Total	4,827	1,835	19,187	1,125

[1] Based on average examination time for 1962.

Mr. WALRATH. I would suggest you might like page 39, analyses of cost.

Mr. BOLAND. Yes, Mr. Reporter, put in page 39 but put it with the justification for the Section of Cost Finding where it belongs.

BUREAU OF FINANCE

Bureau of Finance. You show 103 positions. Are they all in the Washington office?

Mr. SCHMID. Yes.

Mr. BOLAND. Put in pages 51, 52, 53, and 54.

(The pages referred to follow:)

BUREAU OF FINANCE

The principal functions of this Bureau are the handling of proceedings involving rail carriers, motor carriers, water carriers, and freight forwarders under various sections of the Interstate Commerce Act relative to: Authority to construct, extend, acquire, or abandon lines of a railroad or the operation thereof; proposed discontinuances or changes in the operation by railroads of trains or ferries which are subject to prohibitions under State laws; authority for railroads, motor carriers, or water carriers to enter into contracts and agreements for the pooling or division of traffic or earnings; authority to consolidate, merge, transfer ownership, or acquire control of carriers, and when directly related to such authority the granting of certificates or permits to motor carriers in connection therewith; authority to issue securities or to assume obligation and liability with respect to securities of others; authority to sell securities without competitive bidding; authority to alter or modify outstanding securities and obligations; authority to hold position of officer or director of more than one railroad; the guaranty of loans to railroads in financing additions or betterments or other capital expenditures, or expenditures for maintenance of property; and formal investigations concerning possible violations of the act relating to the foregoing subjects; and, under provisions of the Uniform Bankruptcy Act, the approval of plans of reorganization, the submission thereof to creditors and stockholders for acceptance or rejection, the recommendation of formulas for the segregation of earnings, the ratification of trustees, the fixing of maximum limits of allowances to trustees and other parties in interest, and the authorization of persons, including protective committees, to solicit and act under proxies, authorizations, or deposit agreements in connection with railroad reorganization or receivership proceedings.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	98	103	+5
Personnel compensation	$1,048,788	$1,145,212	+$96,424
Personnel benefits	77,612	84,424	+6,812
Total personal services and benefits	1,126,400	1,229,636	+103,236
Travel	23,700	26,000	+2,300
Total	1,150,100	1,255,636	+105,536

The increase of $103,236 for personal services and benefits is primarily for the five additional positions requested, two extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793.

The increase of $2,300 for travel is for the additional positions requested.

The 103 positions provided in the 1964 budget for this bureau are separated by categories as follows:

Director	1
Assistant director	1
Transport analyst	1
Hearing examiner	28
Attorney-adviser	33
Loan examiner	2
Financial analyst	5
Administrative officer	1
Administrative assistant	1
Adjudicator	6
Clerk and stenographer	24
Total	103

The following tabulation shows by section the positions authorized for fiscal year 1963 and those requested for fiscal year 1964:

	Authorized 1963	Requested 1964
Director's office	13	13
Hearings	28	33
Loans and financial analysis	11	11
Proceedings	31	31
Transfer Board	15	15
Total	98	103

The additional positions requested in the 1964 budget are as follows:

Title of position	Section	Number
Hearing examiner	Hearings	2
Clerk-stenographer	do	3
Total		5

These positions are requested to handle an increasing workload and to reduce the blacklog of cases awaiting decision, and thereby reduce the time lag between the filing of applications and their disposition. In recent years increasing criticism has been directed by Members of Congress and others toward this Commission and other regulatory agencies because of the "regulatory lag." It is especially important to the transportation industry and the public that finance matters handled by this Bureau be disposed of expeditiously. Delays frequently result in substantial financial losses to applicant carriers.

As part of the rather extensive reorganization of the Commission and revisions of certain of its procedures for handling decisions and enabling legislation, five employee boards were created in the Bureau of Finance. These boards render decisions in formal and informal proceedings by reports and orders. Membership on the boards is limited to certain qualified personnel by the Interstate Commerce Act and in addition to the Assistant Director and Chief of Section of Proceedings, six attorney-advisers are permanent members. The work of these boards occupies a considerable portion of the time of these attorneys which otherwise would be used in writing or reviewing final reports of the Commission.

A summary of the number of finance proceedings, separated between motor carrier and other proceedings, instituted during the last three fiscal years is

given below. Substantially all of the "other proceedings" involve rail carriers; only a few involve water carriers and freight forwarders.

	Motor carrier			Railroad and other		
	1960	1961	1962	1960	1961	1962
Applications and investigations	1,690	1,621	1,407	470	572	574
Petitions	326	336	331	204	96	116
Total	2,016	1,957	1,738	674	668	690

While there was a decrease in 1962 in the total number of motor carrier applications and investigations, the cases handled were more vigorously contested than formerly, and in a substantial proportion, questions of fitness were raised by the Commission's enforcement bureau. These factors add to the records and the man-hours required for processing the cases. Also, so far in the 1963 fiscal year, the number of motor carrier proceedings instituted has been greater than in the corresponding period of the prior fiscal year. The increase in the number and complexity of railroad applications has had a tremendous impact on the work of the bureau. Statistically, this increase is largely accounted for by applications for acquisitions of control, mergers, abandonments, and issuance of securities; more important is the increase in the man-hours required for railroad control and merger applications because of their size, importance, complexity, and adversary character.

DISCONTINUANCE OF RAILROAD SERVICE

Mr. THOMAS. Are very many of the major lines or lesser lines seeking to abandon part of their lines or shorten their hauls?

Mr. WALRATH. Director Baker could answer that, I think.

Mr. BAKER. In the last year or two there has been an increase in applications filed to abandon lines of railroads.

Mr. THOMAS. Spurs or big sections? How many applications do you have where they abandon service to towns that have enjoyed rail service for many, many years? Do you have that type of applications coming to you too?

Mr. BAKER. Yes. Practically all applications involve lines that have been in existence for a number of years.

Mr. THOMAS. Going to established communities?

Mr. BAKER. Normally they are branches that serve relatively small towns. Maybe 6,000 would be the largest.

Mr. THOMAS. What yardstick do you go by in refusing the application? What if they show they lost $2 million or $3 million last year, whether it was lost on that particular section or not? What do you do in a case like that?

Mr. BAKER. It is a judgment matter. The main factors to be considered are the results of operating financially, how much is the railroad losing. Another factor is the need for the service and what other services are available to the towns involved.

Mr. THOMAS. You have a hard problem. If it is clear to you that that particular line is losing money and you tell them to go ahead and operate anyway, you are right up against it, are you not?

Mr. BAKER. Yes, it is a difficult decision.

Mr. WALRATH. On that point, we have a very ticklish legal point pending where we did authorize the abandonment of passenger service

in North Carolina and we were reversed on the ground we looked only to the loss on the passenger operation whereas the particular line as a whole was making money.

Mr. GOFF. And you are talking about a complete abandonment of service. That was passenger abandonment. We have situations where the community has changed, where industry has moved away or where industry has turned to truck transportation for hauling their goods. All those things have to be considered to determine if there is a real need. If the community does not use it any more, it would be unfair to the railroad to have them keep a line going where the tonnage is so small maybe there are only two shipments a week.

Mr. THOMAS. Off the record.

(Discussion off the record.)

ABANDONMENT OF RAIL SERVICE—FISCAL YEAR 1962

Mr. BAKER. Mr. Chairman, I might mention that in the fiscal year ending June 30, 1962, the Commission authorized abandonment of 1,582 miles of rail lines. That was in 95 different cases.

Mr. JONAS. Was that complete abandonment or abandonment of one type of service?

Mr. BAKER. That was complete abandonment.

Mr. JONAS. If you add reduced service that you permitted, it would increase those figures?

Mr. BAKER. Yes. This does not include cases where we merely authorized abandonment of passenger service.

Mr. BOLAND. Do you have the figures on that?

Mr. BAKER. The figures for 1962 are in our annual report.

Mr. BOLAND. Supply that for the record.

(The information supplied follows:)

TRAIN DISCONTINUANCES

The number of proposals under section 13a(1) of the act, involving discontinuances or change in operation or service of trains between States, remained approximately the same as for the prior year. A total of 16 proposals to discontinue 58 trains were filed by 11 railroads. Investigations were instituted in respect of all except 5 proposals involving 29 trains. During the year, 8 railroads were permitted to discontinue operation of 50 passenger trains, and continuance was required of 5 railroads involving 26 passenger trains.

Petitions under section 13a(2), involving discontinuance or change in the operation or service between points in a single State, showed a decline. Three railroads filed 3 petitions proposing to discontinue 12 trains, compared with 4 railroads filing 4 petitions to discontinue 65 trains during the prior year. In cases arising under this paragraph of the section, we permitted 3 railroads to discontinue 15 trains and required 2 railroads to continue operating 51 trains sought to be discontinued. Of the 51 trains required to continue operating, 21 are commuter trains of the Pennsylvania Railroad Co. operating to and from Pittsburgh, Pa., and 30 are Pennsylvania-Reading-Seashore Line trains operating between Camden, N.J., and southern New Jersey points.

DETERMINATION OF PASSENGER TRAIN ABANDONMENT

Mr. JONAS. May I ask another question there? The *Southern Railroad* case is on appeal, is it not?

Mr. WALRATH. Not yet but it doubtless will be. We are certain petitions will come up.

Mr. JONAS. I mean appeal to the Supreme Court.

Mr. WALRATH. I would imagine it is so important to the parties that they might, yes.

Mr. JONAS. If it is not appealed and the decision of the lower court——

Mr. WALRATH. You mean the passenger train abandonment?

Mr. JONAS. Yes.

Mr. WALRATH. We have taken an appeal from that decision so the question is up to the court whether in making a decision to discontinue we must also take into consideration the general health of the line of railroad itself. Our position is that that was not the intent of the Congress when it gave us authority to consider discontinuances.

Mr. BAKER. The Commission does take into consideration the overall health of the railroad involved but the court in this case determined we should take into consideration the profit over this same particular line from freight traffic.

Mr. JONAS. The court held the Commission should have considered the railroad's profit from freight over that same line?

Mr. BAKER. Yes.

Mr. GOFF. Our position was that under the statute they were applying a rule that would apply for the full abandonment of the whole service. We said as we interpret the statute we are authorized, if there was not enough passenger use, to discontinue the passenger service.

BUREAU OF INQUIRY AND COMPLIANCE

Mr. BOLAND. Bureau of Inquiry and Compliance. You are looking for 8 additional positions for a total of 109.

How many do you have on board in the central office?

Mr. RYAN. Ninety-seven aboard and a ceiling of 105.

Mr. BOLAND. Put pages 72, 73, and 74 in the record.

(The pages referred to follow:)

BUREAU OF INQUIRY AND COMPLIANCE

The principal objectives of this Bureau are to enforce the criminal and penal provisions of parts I, II, III, and IV of the Interstate Commerce Act and similar provisions of the Elkins Act; to enforce orders of the Commission; to assist in the enforcement of other statutes affecting transportation and carriers; and to represent the Commission in formal docket investigations instituted by it and specially assigned to the Bureau.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	101	109	+8
Personnel compensation	$936,027	$1,031,318	+$95,291
Personnel benefits	68,947	75,698	+6,751
Total personal services and benefits	1,004,974	1,107,016	+102,042
Travel	70,000	74,200	+4,200
Total	1,074,974	1,181,216	+106,242

The increase of $102,042 for personal services and benefits is primarily for the eight additional positions requested, 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793.

The increase of $4,200 for travel is for the additional positions requested.

The 109 positions provided in the 1964 budget are separated as follows:

	Departmental	Field	Total
Director and assistant director	3		3
Assistant to director	1		1
Administrative officer	1		1
Attorney	24	28	52
Investigator		17	17
Clerical staff	17	18	35
Total	46	63	109

The increase of eight positions requested for the fiscal year 1964 represents two clerk-stenographers for the departmental office and three attorneys and three clerk-stenographers for the field.

DEPARTMENTAL

The 1964 budget provides 46 positions or 2 more than the 44 positions authorized for 1963. Two clerk-stenographers are requested for the Director's office.

Director's office

The two additional GS-4 clerk-stenographers are requested to provide clerical and stenographic assistance to the attorneys of the bureau.

Section of rail, water, and forwarder enforcement

This section directs the legal activities of the Commission in the enforcement of the provisions of parts I, III, and IV of the Interstate Commerce Act and related statutes such as the Elkins Act and the Clayton Antitrust Act; and also participates in rulemaking and investigation proceedings before the Commission.

Reports of investigations conducted by investigators of the bureau are analyzed, evaluated, and acted upon by the attorneys of this section. The majority of these investigations involve complicated rebate and concession violations requiring careful analysis of factual data and detailed rate and tariff studies. As of June 30, 1962, there were 225 investigations either in progress or awaiting consideration. Many of these involve operations of alleged shipper associations. Recent decisions of the Commission indicate that the operations of many of the associations may be freight forwarder operations without a certificate and therefore unlawful.

The following table shows the workload for the fiscal years 1960, 1961, and 1962 and estimates for the fiscal years 1963 and 1964:

	Actual			Estimate	
	1960	1961	1962	1963	1964
Investigations:					
On hand at beginning of year	350	244	238	225	225
Instituted during year	188	234	222	250	270
Concluded during year	294	240	235	250	290
Pending at end of year	244	238	225	225	205
Court cases:					
On hand at beginning of year	34	44	66	74	79
Instituted during year	53	70	79	75	85
Concluded during year	43	48	71	70	80
Pending at end of year	44	66	74	79	84
Commission proceedings:					
On hand at beginning of year	8	14	11	16	19
Instituted during year	8	2	9	15	20
Concluded during year	2	5	4	12	15
Pending at end of year	14	11	16	19	24

The tremendous growth in railroad piggyback service has been instrumental in fostering the formation of shipper associations because of the substantial savings in transportation costs. Many of these associations conduct questionable operations and may be characterized as falling within the gray area field. Many of these investigations result in extensive and time-consuming Commission proceedings in which attorneys of this section represent the Commission.

The rapid growth of railroad piggyback service has generated many abuses or unlawful practices, which require attention. The Commission recently instituted a general investigation of all the various piggyback plans of operation, designated Ex parte No. 230, *Substituted Service—Charges and Practices of For-Hire Carriers and Freight Forwarders (Piggyback Service)*. The Commission directed this Bureau to participate, and this proceeding, together with processing investigations in this field, will require the full time of two or three attorneys of this section for an extended period of time.

FIELD SERVICE

A total of 63 positions is requested for 1964 or 6 more than the 57 positions authorized for 1963. The six positions, three attorneys and three clerk-stenographers, will be utilized to process the increased amount of motor carrier enforcement work.

ABUSES OF RAILROAD PIGGYBACK SERVICE

Mr. BOLAND. We note you say:

The rapid growth of railroad piggyback service has generated many abuses or unlawful, which require attention.

Can you give some of the unlawful practices you have found?

Mr. MERRILL. The tremendous growth in railroad piggyback service has brought about the formation of so-called shipper associations that perform a service similar to that performed by freight forwarders. That is requiring a great deal of enforcement work. They contend they are in the area of exemption but frequently it is not an organization of shippers working together, but rather it is one man rendering a forwarder service.

Mr. BOLAND. When you say "one man" what do you really mean?

Mr. MERRILL. Or two or three individuals. They have no investment. They simply know how to move traffic and they allegedly bring the shippers in to them but it is not really a shippers organization; the shippers do not really run the organization; it is an independent man attempting to make a profit for himself.

Mr. BOLAND. And this is unlawful?

Mr. MERRILL. Yes.

Mr. BOLAND. This matter has presented quite a problem to the Commission?

Mr. MERRILL. Yes, sir.

Mr. BOLAND. How many people do you have engaged in this particular activity?

Mr. MERRILL. We have 16 special agents working and probably 4 or 5 concentrating in this area. They are not always the same men but this work is constantly going on.

Mr. BOLAND. You are holding hearings all over the country?

Mr. MERRILL. No. This is not hearings; this is investigations.

Mr. BOLAND. The investigation is not being conducted on the Commission level?

Mr. MERRILL. No.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. BOLAND. Are you holding hearings in regard to Ex parte 230?

Mr. WALRATH. Yes, much is coming in by written statements.

Mr. JONAS. May I ask a question there?

How did these abuses develop so quickly in the piggyback operations?

Mr. WALRATH. It is due principally to the so-called Plan 3 where the railroads began to offer to shippers and to freight forwarders rates under which the shipper loads the trailer-container and brings it to the railhead, and gets a reduced rate. That lent itself to the legitimate freight forwarder but it seemed to be an incentive to the false shipper organizations operating outside the exemption to build up groups——

Mr. JONAS. What is the extent of the exemption?

Mr. WALRATH. The exemption says if two or more shippers associate themselves together to pool their traffic to get volume that they can operate as an organization without the necessity of a permit or approval of the Commission. There are many legitimate organizations but now a great many promoters have taken advantage of it and the profit is to be found in the fellow who promotes and controls the scheme.

Mr. JONAS. Is that inherently wrong?

Mr. WALRATH. It is not inherently wrong, but it is legally wrong because it is not a true association. It is the practice of a promoter who may have no financial investment but who benefits from getting you and me together.

Mr. GOFF. That is the freight forwarder's job and he is classed as a freight forwarder but he comes under the regulations of the Commission.

Mr. JONAS. These exemptions do not arise solely because of the piggyback operations?

Mr. WALRATH. No, sir. That gave them an added incentive to spring up.

Mr. BOLAND. And the shippers per se do not come under those regulations?

Mr. WALRATH. No, sir.

MOTOR CARRIER ENFORCEMENT

Mr. BOLAND. Section of Motor Carrier Enforcement. Insert pages 75, 76, and 77 in the record.

(The pages referred to follow:)

SECTION OF MOTOR CARRIER ENFORCEMENT

The following table compares the actual and estimated workload increase of motor carrier investigation cases and court and Commission proceedings from 1960 to 1964, which are handled by field attorneys:

	Actual			Estimate	
	1960	1961	1962	1963	1964
Investigations:					
On hand at beginning of year	827	802	977	974	998
Instituted during year	975	1,202	1,252	1,274	1,340
Concluded during year	1,000	1,027	1,255	1,250	1,350
Pending at end of year	802	977	974	998	988
Court cases:					
On hand at beginning of year	345	430	488	569	659
Instituted during year	760	710	855	870	900
Concluded during year	675	652	774	780	800
Pending at end of year	430	488	569	659	759
Commission proceedings:					
On hand at beginning of year	196	222	270	237	247
Instituted during year	135	204	116	200	240
Concluded during year	109	156	149	190	200
Pending at end of year	222	270	237	247	287

Three additional attorneys are requested to assist in reducing the backlog of work and to assist with increased workload caused by the increasing emphasis on cases falling within the so-called gray area, such as unlawful leasing, so-called buy-and-sell schemes, fictitious shipper associations, etc., which are difficult and time-consuming.

This increased enforcement activity requires more stenographic assistance. The three clerk-stenographer positions are requested to provide needed stenographic help for field attorneys.

SECTION OF INVESTIGATIONS

The present field staff of investigators totals 17. The principal function of this staff is to conduct investigations of rail, water, and freight forwarder matters; and to conduct selected motor carrier investigations of the more difficult type.

Intensified competition between the various types of carriers have resulted in ingenious schemes and practices to evade regulations, such as unlawful rebate and concessions to shippers, unlawful operations by unauthorized carriers, etc. Investigations have become more complex and time-consuming. There are, under investigation or awaiting investigation, approximately 125 cases which, at the rate of 18 days per investigation (May 1959 study), represents a 7-month workload which is excessive for our present staff.

In recent years there has come into being a large number of so-called shippers' agents and shippers' associations which purport to be exempt under the provisions of section 402(c), but most of which are believed to be unlawful arrangements which conceal unauthorized freight forwarder operations. There are believed to be over 200 of such operations currently in existence and many complaints have been received by the Commission about them. The language of the exemption is not entirely clear and is open to conflicting interpretation which made enforcement difficult.

Statement of actual enforcement workload of the Bureau for fiscal years 1960, 1961, and 1962 and estimates for fiscal years 1963 and 1964

	Actual			Estimate	
	1960	1961	1962	1963	1964
Investigations:					
On hand beginning of year	1,177	1,046	1,215	1,199	1,223
Instituted during year	1,163	1,436	1,474	1,524	1,610
Concluded during year	1,294	1,267	1,490	1,500	1,640
Pending at end of year	1,046	1,215	1,199	1,223	1,193
Court cases:					
On hand beginning of year	379	474	554	643	738
Instituted during year	813	780	934	945	985
Concluded during year	718	700	845	850	880
Pending at end of year	474	554	643	738	843
Commission proceedings:					
On hand beginning of year	204	236	281	253	266
Instituted during year	143	206	125	215	260
Concluded during year	111	161	153	202	215
Pending at end of year	236	281	253	266	311

Bureau of Motor Carriers

Mr. Boland. Bureau of Motor Carriers. You are looking for an increase of $259,494 occasioned by the pay increase, two extra compensable days and seven additional positions.

How many did you have on board as of January 19 in this Bureau?

Mr. Ryan. 517 as against a ceiling of 524.

Mr. Boland. Put in pages 78 through 87 in the record; also the table on page 88; the workload table on page 91; the workload table on page 93; the tables on pages 94, 95, and 96; the table on the statistics branch on page 99; the narrative on page 100; and pages 104 through 114.

(The material referred to follows:)

Bureau of Motor Carriers

The duties of the bureau relate to the regulation of motor carriers under part II and insurance of freight forwarders under part IV of the Interstate Commerce Act. With relation to motor carriers, its duties include handling of complaints of shippers and others against the rates, charges, and practices of motor carriers; administering the Commission's insurance rules and regulations for the protection of the public; investigation of violations of part II; and promoting safety of operation and equipment, and compliance with motor carrier safety regulations.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	524	531	+7
Personnel compensation	$3,680,717	$3,923,401	+$242,684
Personnel benefits	271,625	288,435	+16,810
Total personal services and benefits	3,952,342	4,211,836	+259,494
Travel	270,000	270,000	0
Total	4,222,342	4,481,836	+259,494

The increase of $259,494 for personal services and benefits is primarily for the seven additional positions requested, 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793.

The following table shows by sections of the Bureau the number of positions authorized for 1963 and the number requested for 1964:

	Authorized, 1963	Requested, 1964	Increase
Director's Office	10	10	
Interpretations staff	9	9	
Insurance	31	31	
Motor carrier safety	43	45	+2
Field service:			
Departmental	7	7	
Field	424	429	+5
Total, motor carriers	524	531	+7

In addition to general regulation of for-hire motor carriers, Congress has given the Commission the responsibility of prescribing and enforcing regulations to govern safety of operation and hours of service of employees with respect to certain exempt operations of for-hire trucks, buses, and private trucks used for transportation in interstate or foreign commerce, and vehicles used in the transportation of migrant workers. The need for increased safety work becomes more important as the highways become more congested and the amount of explosives and dangerous articles transported over them increases as a result of the defense program. Safeguards to assure the safety of operation of vehicles transporting explosives is a matter of great public concern.

While the number of authorized motor carriers under the Commission's jurisdiction has not changed materially in the last year, the number of vehicles operated and the number of tons of property transported continues to increase steadily. The volume of property being transported by motor carriers, both private and for hire continues at a high level.

The increase in illegal operations in the so-called gray area of transportation has reached serious proportions and emphasizes the need for increased investigation activity in this field to determine a more accurate estimate as to the volume of the transportation industry affected. The Commission's program is underway and plans are to increase the activity in the coming year.

OFFICE OF THE DIRECTOR, BUREAU OF MOTOR CARRIERS

The Director of the Bureau has overall responsibility for the work of the entire Bureau. This Office is responsible for initiating and planning of work projects and the development of proper instructions and directives to carry out these projects; designing efficient and effective programs for training of newly appointed staff members, and for reorientation of present staff members to keep them currently informed of new projects and to broaden their perspective. Administrative duties required in the operation and maintenance of the sections in Washington and the field offices of the Bureau are handled under the jurisdiction of this Office. A volume of significant detail work is necessary to service the staff and this volume increases as personnel are added to the Bureau.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	10	10	0
Personnel compensation	$80,299	$84,967	+$4,668
Personnel benefits	5,919	6,238	+319
Total personal services and benefits	86,218	91,205	+4,987
Travel	4,710	4,710	0
Total	90,928	95,915	+4,987

The increase of $4,987 for personal services and benefits is for 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793.

The 1964 budget provides 10 positions for this office which is the same as authorized for the current fiscal year. These positions are separated by categories as follows:

Director and assistant director	2
Administrative officer	1
Administrative assistant	1
Clerk, typist, and stenographer	6
Total	10

INTERPRETATIONS STAFF, BUREAU OF MOTOR CARRIERS

This staff assists the director of the Bureau in handling legal interpretations and opinions and preparing administrative rulings concerning part II of the Interstate Commerce Act and motor carrier regulations and operating authorities issued thereunder; conferring with other Government agencies, carrier trade associations, and the general public regarding motor carrier regulatory problems; preparing and maintaining a manual which digests, correlates, explains, and distinguishes past interpretations and formal decisions to aid the field staff and other Commission personnel; acting as legal adviser and consultant to the Bureau; and performing legal research upon request.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	9	9	0
Personnel compensation	$70,761	$75,082	+$4,321
Personnel benefits	5,270	5,569	+299
Total personal services and benefits	76,031	80,651	4,620

The increase of $4,620 for personal services and benefits is for 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87–793.

The 1964 budget provides nine positions for this office which is the same as authorized for the current fiscal year. These positions are separated by categories as follows:

Attorney-adviser	5
Clerk	3
Secretary-stenographer	1
Total	9

SECTION OF INSURANCE, BUREAU OF MOTOR CARRIERS

The major function of this Section is administering for the Commission its rules and regulations issued pursuant to sections 211(c), 215, and 403 (c) and (d) of the act, governing filing and approval of security for the protection of the public by brokers of transportation, motor carriers, and freight forwarders.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	31	31	0
Personnel compensation	$173,570	$183,874	+$10,304
Personnel benefits	12,737	13,442	+705
Total personal services and benefits	186,307	197,316	+11,009
Travel	1,060	1,060	0
Total	187,367	198,376	+11,009

The increase of $11,009 for personal services and benefits is for 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793.

The 1964 budget provides 31 positions for this section which is the same as authorized for the current fiscal year. These positions are separated by categories as follows:

Chief of section	1
Assistant to chief	1
Insurance examiner	22
Secretary-stenographer	1
Clerk and clerk-typist	6
Total	31

The program to effect compliance by all motor carriers with section 221 of the act, which requires designation of process agents in each State in which they operate, has now started. Previously the Section had been able to effect compliance of only those motor carriers which obtain new or extensions of operating authority. The latter was further limited to the States involved in the new or extensions of operating authority.

The following table shows the actual workload for fiscal years 1960, 1961, and 1962 and estimates for fiscal years 1963 and 1964.

Section of Insurance, Bureau of Motor Carriers, Interstate Commerce Commission

	Actual			Estimate	
	1960	1961	1962	1963	1964
1. Certificate of insurance and surety bonds:					
(a) Received	18,581	17,242	16,876	16,500	16,000
(b) Notices of cancellation received	12,618	10,940	10,606	9,500	9,000
2. Orders checked to determine compliance prior to issuance: Initial submission of all proposed authorities by Bureau of Operating Rights and checks of resubmission, and proposed and/or granted authorities under secs. 5 and 219a(b)	20,461	21,883	21,275	22,000	22,500
3. Compliance check prior to enforcement proceedings:					
(a) Initiated in section and reported to field	3,758	3,100	3,652	3,500	3,400
(b) Compliance received as result of (a)	3,287	2,764	3,510	3,200	3,100
4. Correspondence prepared:					
(a) Letters, telegrams, and memorandums prepared in section other than form letters	7,599	10,462	13,089	11,500	11,500
(b) Form letters	21,278	19,875	18,437	18,500	18,500
5. Form BMC-3 (process agent) received	[1] 4,432	9,802	8,559	8,500	7,500

[1] 7 months.

SECTION OF MOTOR CARRIER SAFETY, BUREAU OF MOTOR CARRIERS

This section proposes revisions and additions to the safety regulations and interprets those regulations of the Commission concerning the qualifications and hours of service of drivers, and safety of operation and equipment of motor carriers. Such regulations are prescribed by the Commission pursuant to part II of the Interstate Commerce Act. The section receives and analyzes reports made by the field staff bearing upon compliance with the Commission's safety regulations; receives and analyzes reports of accidents submitted by motor carriers pursuant to the Commission's accident reporting requirements; and hours of service reports submitted by carriers pursuant to the hours of service reporting requirements. It recommends changes bearing upon transportation of explosives by motor vehicle which are prescribed in the explosives and other dangerous articles regulations.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	43	45	+2
Personnel compensation	$255,049	$279,048	+$23,999
Personnel benefits	18,989	20,691	+1,702
Total personal services and benefits	274,038	299,739	+25,701
Travel	4,500	4,500	0
Total	278,538	304,239	+25,701

The increase of $25,701 for personal services and benefits is primarily for the two additional positions requested, 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87–793.

The 45 positions provided in the 1964 budget for this section are separated by categories as follows:

Chief and assistant chief	2
Assistant to chief	1
Mechanical engineer	3
Branch chief	3
Assistant branch chief	2
Accident analyst	2
Special projects assistant	1
Machine operators	1
Statistical clerk	6
Punchcard operator	4
Clerk, typist, stenographer	20
Total	45

The section is the central repository of safety records of 18,587 authorized and 77,670 private and exempt motor carriers. It is estimated that there are an additional 40,000 private and exempt carriers not yet identified. They are being identified and served with the Commission's safety regulations at the rate of about 9,000 per year. There are 218 carriers operating between points in foreign countries through the United States. Pamphlets summarizing the applicable regulations have been furnished to an estimated 5,000 motor carriers of migrant workers. All of the above carriers operate an estimated 2 million motor vehicles.

A continuing review and analysis of the safety records of motor carriers is vital to the Commission's safety activities. These records relating to accidents, qualifications, and hours of service of drivers, condition of equipment, and general safety compliance must be continuously analyzed:

1. To determine the fitness of particular carriers to receive new or extended operating authority.
2. To furnish the field staff with reports of particular carriers or groups of carriers whose safety records are such that particular attention be given to these carriers to obtain compliance with safety regulations and to reduce accidents.
3. To determine causes and means of preventing future similar accidents.
4. To obtain information for needed improvement in motor vehicle designs by manufacturers.
5. To assure uniformity throughout the country in the administration and enforcement of the regulations and the promotion of safety in operations.

This section provides technical advice and assistance to the field staff and the motor transport industry so that there shall be a uniform understanding and application of the regulations. Comprehensive reports are prepared for release on accidents which result in serious consequences. Information developed by this section is used by the Bureau of Public Roads in correcting highway conditions that contribute to accidents. General releases are prepared as to accident trends and frequencies, conditions of motor vehicles, and general compliance with regulations for the purpose of promoting a higher degree of safety consciousness in the motor transport industry.

Two additional positions are requested for 1964. This increase of 2 positions over the 43 positions authorized for 1963 is needed to handle the increased workload which has resulted from an increased number of safety inspectors and district supervisors assigned to the field staff, and to permit better utilization of a great volume of information contained in the various safety surveys, vehicle and driver reports, and accident investigation reports made by the field staff, relating to authorized, private, and "exempt" carriers, and in accident reports submitted by motor carriers.

The additional positions requested for 1963 are one GS–9 mechanical engineer to handle the increased volume of technical work necessary as a result of implementation of new legislation regarding dangerous articles, and to provide technical talent necessary to complete future projects involving vehicle design; and one GS–4 statistical coding clerk for the Statistics Branch to permit current tabulation of accident data, road-check data, accident investigation data, and data from the revised safety compliance report.

OFFICE OF THE CHIEF OF SECTION

This Office is responsible for administering the overall safety program of the Interstate Commerce Commission in motor carrier transportation as prescribed in part II of the Interstate Commerce Act, including regulations, effective August 1, 1958, applicable to carriers of migrant workers by motor vehicle and applications under the Medals of Honor Act, as amended by the 85th Congress. This Office directs, organizes, and plans the work for the Section.

The 1964 budget provides five positions for this Office which is the same as authorized for the fiscal year 1963.

Accident Investigation and Analysis Branch.—This Branch receives, examines, analyzes, and maintains files of accident reports submitted by motor carriers and reports of field investigations of the more serious motor carrier accidents.

The individual accident report is examined for cause, chargeability, type of accident, extent of casualties and property damage, type of cargo, violations of regulations and practices which appear to be unsafe. The accidents are categorized and collectively are the subject of industrywide studies as to type of occurrence, consequences, commodities involved, and driver and vehicle condition. In addition, the reports filed by a carrier are evaluated and compared with records of like carriers, which provides a means for evaluating the carrier's fitness in application proceedings or other type Commission action.

More important these analyses and studies of this Branch, through the use of the motor carrier accident reports and field investigation reports, have been instrumental in leading to recommendations and actions with respect to skidding of buses, structural failures of semitrailers, and loss of cargo from tank vehicles. Recent changes in mechanical equipment and brake requirements were a direct result of accident information. The widespread unauthorized use of amphetamine drugs by drivers was discovered and reported upon by one of our published reports, thus initiating the extensive and continuing enforcement program by other Government agencies and various States. Presently under consideration are studies of accidents involving bus seat failures, ejection of passengers from windows, the need for seat belts, jacknifing of tractor semitrailers, rear end collisions, structural failures of semitrailers, cargo tank failures, spillage of dangerous articles, and the transportation of radioactive materials. Also receiving attention are accidents involving evidence of questionable labor union practices, improper driver selection, instruction or supervision, mechanically defective vehicles, and the many and varied types of driver failure.

It is anticipated that the number of accident reports to be received by this Branch during fiscal years 1963 and 1964 will be increased in each instance by 30 percent over the previous year's receipts. The report and order in *Ex parte MC 40*, dated August 6, 1962, effective January 1, 1963, requires the reporting of accidents occurring in commercial zone operations. The report states that the purpose of requiring such accident reports is to determine the nature of commercial zone accidents and whether or not additional regulation is required.

The 1964 budget provides 10 positions for this Branch which is the same as authorized for the fiscal year 1963.

Workload statement of Accident Investigation and Analysis Branch

	Actual			Estimate	
	1960	1961	1962	1963	1964
Accident reports:					
Classified and examined:					
On hand	3,910	3,012	1,892	4,091	8,319
Received	43,131	30,864	32,467	[1] 42,207	[2] 54,869
Disposed	44,029	31,984	30,268	37,979	56,974
Pending	3,012	1,892	4,091	[3] 8,319	[3] 6,214
Accident investigation MCS-12:					
Reports analyzed:					
On hand	56	61	34	14	17
Received	401	369	356	[4] 409	409
Disposed	394	396	376	406	409
Pending	61	34	14	17	17
Accident investigation MCS-12A: [5]					
Reports analyzed:					
On hand	0	0	0	0	0
Received	564	830	356	392	392
Disposed	564	830	356	392	392
Pending	0	0	0	0	0
Survey of carriers' accident:					
Records prepared:					
On hand	402	60	22	21	15
Received	219	338	115	[6] 144	155
Disposed	392	376	116	150	155
Pending	60	22	21	15	15
Formal proceedings for which exhibits are prepared:					
On hand	0	0	0	0	0
Received	15	10	5	10	10
Disposed	15	10	5	10	10
Pending	0	0	0	0	0

[1] The number of BMC-50 reports received in 1962 represented a 5-percent increase over receipts in 1961. The number of BMC-50 reports for 1963 represents a 30-percent increase over 1962. This represents the normal expected 5-percent increase due to increased traffic causing more accidents and better reporting, plus 25 percent expected increase due to the change in pt. 194, effective Jan. 1, 1963, requiring the reporting of accidents occurring in commercial zone operations.

[2] This figure represents the normal 5-percent increase over 1963 plus 25 percent (making a total increase of 30 percent) by reason that the commercial zone requirements will be effective throughout the full year.

[3] This figure will represent either the backlog or reports filed without examination. It is expected that the backlog in 1964 can be reduced somewhat in spite of increased receipts.

[4] The number of MCS-12 reports for 1963 is estimated as approximately 15 percent over the 1962 figure.

[5] The use of this form is being restricted to the more serious accident situations, therefore the number was decreased by 57 percent in 1962 from 1961. Projections for 1963 and 1964 represents 10-percent increase over 1962.

[6] In this endeavor, requests are, in a manner, related to our ability to provide the service. We expect to increase our capabilities along this line. Thus, the 1963 figure is projected to show a 25-percent increase over that of 1962.

Fiscal year workload of Engineering Branch

	Actual			Estimate	
	1960	1961	1962	1963	1964
Defective vehicle accident reports examined	1,930	1,679	1,562	1,600	1,800
Fire accident reports examined	719	1,456	651	700	800
Accident investigation reports examined	40	33	42	45	45
Outside conferences attended	18	65	17	50	50
Outside consultations	404	359	387	400	400
Informal interpretations of regulations	605	415	356	450	450
Recommendations prepared concerning E. & O.D.A. special permits	78	60	69	70	70
Specifications and blueprints examined	[1]	43			
Sheets of blueprint	[1]	[1]	252	200	200
Pages of specifications	[1]	[1]	250	250	250
Recommended revisions of regulations	[1]	42	31	50	50
Recommendations in response to petitions	[1]	6	7	6	6

[1] Statistics not available.

Safety Compliance Branch.—This Branch maintains a record of all motor carriers known to the Commission. It is charged with the responsibility of determining the degree of safety compliance of such carriers and preparing reports for the field staff, various other bureaus of the Commission, and other Federal agencies.

Upon receipt of request for safety compliance reports, the Branch prepares detailed studies in connection with permanent and temporary authority applications dealing with operating authority. Information compiled by it is used by the Bureaus of Operating Rights and Inquiry and Compliance, and Division 1, pertaining to pending applications.

Requests with respect to the compliance with the Commission's Motor Carrier Safety Regulations are received from the Defense Supply Agency of the Department of Defense and other Government agencies. The Defense Department's requests are in connection with carriers' applications to transport explosives for the Government. The importance of this phase of our work is clearly demonstrated by the fact that during the last fiscal year that Department denied the requests of 11 carriers to haul explosives because of the carrier's noncompliance with the Commission's Safety Regulations.

The Branch also prepares answers to inquiries from the field staff, motor carriers, and the general public pertaining to interpretations of the Motor Carrier Safety Regulations.

The 1964 budget provides 13 positions for this Branch which is the same as authorized for the fiscal year 1963.

The following statement shows the actual workload of the Branch for fiscal years 1960, 1961, and 1962 and estimates for fiscal years 1963 and 1964.

Fiscal year work record of Safety Compliance Branch

	Actual			Estimate	
	1960	1961	1962	1963	1964
BMC–60, excess hours reports:					
On hand	5,245	3,900	225	0	0
Received	19,349	20,225	[1] 47,166	50,000	52,000
Disposed	20,694	23,900	47,391	50,000	52,000
Pending	3,900	225	0	0	0
BMC–62, class I and II carriers:					
On hand	8,783	7,000	[1] 3,000	0	0
Received	27,353	28,020	0	0	0
Disposed	29,136	32,020	3,000	0	0
Pending	7,000	3,000	0	0	0
SS–31, driver-equipment compliance check reports:					
On hand	34,085	17,750	200	0	0
Received	59,016	48,565	48,510	50,000	52,000
Disposed	75,351	66,315	48,710	50,000	52,000
Pending	17,750	200	0	0	0
BMC–63, out of service:					
On hand	8,788	4,000	160	0	0
Received	8,636	6,523	7,408	7,500	7,500
Disposed	13,424	10,363	7,568	7,500	7,500
Pending	4,000	160	0	0	0
SS–32, safety survey report:					
On hand	429	400	83	50	0
Received	7,489	6,183	5,771	6,050	6,100
Disposed	7,518	6,500	5,804	6,100	6,100
Pending	400	83	50	0	0
SS–33, Notice to carrier of safety violations:					
On hand	0	0	0	0	0
Received	156	143	151	200	200
Disposed	156	143	151	200	200
Pending	0	0	0	0	0
MCS–40, service upon private and exempt carriers:					
On hand	[2]	0	0	0	0
Received	[2]	9,111	7,939	7,800	7,900
Disposed	[2]	9,111	7,939	7,800	7,900
Pending	[2]	0	0	0	0
SS–52, notice of delinquent hours of service reports:					
On hand	0	0	0	0	0
Received	3,566	2,312	2,746	2,800	2,800
Disposed	3,566	2,312	2,746	2,800	2,800
Pending	0	0	0	0	0
Permanent authority applications (excluding explosives):					
On hand	0	0	0	0	0
Received	5,638	6,505	4,472	5,000	5,000
Disposed	3,129	4,500	4,472	5,000	5,000
	[3]	[3]	0	0	0
Explosive applications (including term applications):					
On hand	0	0	0	0	0
Received	[4]	21	23	30	40
Disposed	[4]	21	23	30	40
Pending	[4]	0	0	0	0
Temporary authority application reports:					
On hand	0	0	0	0	0
Received	1,521	1,507	1,697	1,700	1,700
Disposed	1,521	1,507	1,697	1,700	1,700
Pending	0	0	0	0	0
Safety reports to Department of Defense:					
On hand	0	0	0	0	0
Received	20	52	52	60	65
Disposed	20	52	52	60	65
Pending	0	0	0	0	0
Formal proceedings for which exhibits were prepared:					
On hand	0	0	0	0	0
Received	7	3	12	14	16
Disposed	7	3	12	14	16
Pending	0	0	0	0	0

[1] BMC 60 and 62 combined into one reporting form (BMC–60), effective July 1, 1961.
[2] Handled by Statistical Branch.
[3] Balance filed without review.
[4] Handled in connection with P.A. program.

Statistics Branch

	Actual			Estimate	
	1960	1961	1962	1963	1964
Accident reports coded and punched and index cards made:					
On hand	2,500	2,500	400	400	400
Received	43,131	30,864	32,467	40,600	48,000
Disposed of	43,131	32,964	32,467	40,600	48,000
Pending	2,500	400	400	400	400
Driver-equipment compliance check reports coded and punched:					
On hand	0	0	0	0	0
Received	59,401	51,123	48,721	50,000	55,000
Disposed of	59,401	51,123	48,721	50,000	55,000
Pending	0	0	0	0	0
Out of service notices coded and punched:					
On hand	0	0	0	0	0
Received	8,684	6,979	7,483	7,500	7,500
Disposed of	8,684	6,979	7,483	7,500	7,500
Pending	0	0	0	0	0
Mechanical defect accident reports coded and punched:					
On hand	0	1,300	0	0	0
Received	1,300	2,880	1,562	1,800	2,100
Disposed of	0	4,180	1,562	1,800	2,100
Pending	1,300	0	0	0	0
Fire accident reports coded and punched:					
On hand	0	600	0	0	0
Received	600	1,169	651	750	850
Disposed of	0	1,769	651	750	850
Pending	600	0	0	0	0
Monthly hours of service reports coded and punched:					
On hand	----------	----------	[1] 0	0	0
Received	----------	----------	0	12,500	2,500
Disposed of	----------	----------	0	12,500	2,500
Pending	----------	----------	0	0	0
Quarterly mileage cards punched:					
On hand	2,300	0	0	0	0
Received	12,239	12,828	15,276	15,000	15,000
Disposed of	14,539	12,828	15,276	15,000	15,000
Pending	0	0	0	0	0
Driver out-of-service notices coded and punched:					
On hand	0	0	[2]	0	0
Received	0	0	0	1,000	1,000
Disposed of	0	0	0	1,000	1,000
Pending	0	0	0	0	0

[1] Lack of clerk time for coding, prevented the handling of hours of service reports in 1962. Use of a summary form in 1963 is anticipated. This will enable us to develop useful data with much less expenditure of manpower.

[2] This information is received in connection with a new program initiated on Sept. 6, 1962.

SECTION OF FIELD SERVICE, BUREAU OF MOTOR CARRIERS

The major objectives of this section are (1) to administer and enforce at the field level, the provisions of part II of the act and the rules and regulations of the Commission issued pursuant thereto; (2) to furnish advice and information to motor carriers and the public regarding the act and the rules and regulations; (3) to obtain information concerning general and special conditions throughout the country which affect regulation of motor transportation and service to the shipping public; (4) to assist other bureaus and sections in Washington with respect to the expeditious handling of all matters affecting motor transportation; (5) to maintain liaison with State officials in connection with matters of mutual interest; and (6) to aid the Commission in developing adequate and safe transportation service for the public.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	431	436	+5
Personnel compensation	$3,101,038	$3,300,430	+$199,392
Personnel benefits	228,710	242,495	+13,785
Total personal services and benefits	3,329,748	3,542,925	+213,177
Travel	259,730	259,730	0
Total	3,589,478	3,802,655	+213,177

The increase of $213,177 for personal services and benefits is primarily for the five additional positions requested, 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793.

The following statement shows by working titles the positions authorized for 1963 and those requested for 1964:

	Authorized 1963	Requested 1964	Increase
Field:			
District director	13	13	
Assistant district director	2	2	
District supervisor	126	126	
Safety inspector	99	99	
Rate agent	13	13	
Administrative assistant	6	6	
Chief clerk	8	8	
Clerk, stenographer and typist	157	162	5
Total, field	424	429	5

Work items	Actual			Estimate	
	1960	1961	1962	1963	1964
Permanent authority applications investigated	376	334	299	300	325
Temporary authority applications investigated, sec. 210a(a)	3,546	3,803	4,084	4,100	4,100
Proposal to engage in interstate commerce	172	220	373	250	268
Transfer or lease of authority, sec. 212(b)	974	864	813	862	898
Transfer or lease of authority, sec. 5	50	116	66	100	100
Temporary authority to lease, sec. 210a(b)	133	167	108	100	100
Revocation of authority	410	428	470	458	450
Assist Joint Board at hearings	2	1	0	1	1
Staff appearances required at hearings	106	178	129	130	140
Operating authority matters not otherwise described	11,112	13,336	14,044	14,000	14,000

Safety.—The goal of all highway safety programs is the prevention of death and injury to persons and destruction of property. The principal function of the field section is to encourage and assist in the institution of programs by the carriers to insure safe operating and maintenance practices, qualifications and maximum hours-of-service of drivers and to enforce the safety requirements in the operation of truck and bus fleets so as to minimize the danger to passengers and the public being injured or killed upon the highway.

To perform its function, the Commission must encourage the institution of an effective safety program by each commercial fleet operator. This involves strict and continuous planned inspection and maintenance of vehicles by the carrier and observation of all safety rules relating to physical and mental qualifications of drivers which is particularly vital with respect to drivers of commercial vehicles transporting passengers and property on the highways; the reporting

of accidents to the Commission and a careful check on carriers and drivers to assure that all safety regulations are observed.

A decline in safety activity in the 1962 fiscal year was due to relieving district supervisors from safety activity to afford more time for the investigation of unlawful transportation activities.

Work items	Actual			Estimate	
	1960	1961	1962	1963	1964
Motor carriers' safety surveys (authorized carriers)	3,602	[1] 2,734	[1] 2,792	2,900	3,200
Safety inspection of private or exempt carriers	4,332	[1] 3,745	[1] 3,451	3,625	3,800
Action on excess hours report	923	863	1,058	1,000	1,000
Vehicle-driver inspections for safety compliance	61,255	[1] 50,833	[1] 49,269	50,000	55,000
Road observations of vehicles and drivers for safety compliance	5,180	[2] 10,847	[2] 9,439	9,500	10,000
Man-days spent in road checks for safety compliance	5,337	5,753	5,070	5,100	5,400
Unsafe vehicles ordered "out of service"	9,290	[1] 7,481	[1] 7,844	7,500	7,500
Checks for excess hours of service	470	456	445	500	560
Investigation of carriers proposing to transport explosives	55	45	45	58	65
Investigations of accidents involving fatalities and personal injuries	442	[1] 391	[1] 370	375	400
Investigation of compliance with explosives regulations	189	128	137	140	150
Safety and accident prevention meetings conducted	2,014	[1] 1,432	[1] 1,361	1,370	1,380
Private and exempt carriers certified as subject to safety regulations	10,825	9,102	7,972	8,500	9,000
Activities relating to safety matters not otherwise described	10,904	10,342	9,854	10,000	10,000
Drivers declared "out of service"				[3] 500	750

[1] Decline due to district supervisors being excused from these activities to devote more time to enforcement against unlawful transportation.
[2] This activity stepped up to offset lesser number of vehicle-driver inspections.
[3] New activity.

Rates and tariffs.—The rate agents maintain a file of tariffs containing the rates of carriers operating to, from and within the district for the convenience of the public. The rate agents resolve innumerable controversies between shippers and carriers without delay, examine proposed tariffs for compliance and assist small carriers in clarifying their tariffs so that shippers may readily understand the provisions thereof. Because of tariff and rate complexities, the rate agents are essential to the conducting of investigations where rate and tariff violations are involved.

To obtain a better degree of compliance with rate regulations, rate experts are assigned to the field staff to assist investigators in detecting violations which involve rates and tariffs and assist in assembling proper evidence of such violations.

Work items	Actual			Estimate	
	1960	1961	1962	1963	1964
Rate compliance checks	489	404	455	494	494
Special permission applications received and posted for public inspection	559	427	517	566	575
Assistance given carriers and others in preparing tariffs and schedules for filing	849	698	608	650	670
Assistance given to carriers in preparing adoption notices on rate publications	116	108	90	100	100
Assistance given to carriers in concurrence and power of attorney matters	62	184	81	100	100
Revocation notices of filed documents obtained	46	45	32	45	45
Tariffs and schedules examined for rate compliance	1,734	1,655	1,683	1,700	1,700
Interpretations rendered to public on tariffs, rates, and charges	3,129	2,728	2,972	3,000	3,000
Tariff and rate matters handled which are not otherwise described	3,830	4,470	[1] 4,992	4,500	4,500

[1] This increase in activity due to obtaining information as to rates on former exempt commodities.

Accounting.—Certain accounting reports are filed with the field offices by motor carriers. In connection with these and other such reports, the staff assists the proper bureau in the matter of obtaining compliance with the report-filing requirements. This work involves reporting to Washington when the revenues of carriers reach a point which affects the classification of the carrier and in obtaining delinquent accounting reports. In performing this duty the following work items are accomplished:

Work items	Actual			Estimate	
	1960	1961	1962	1963	1964
New class II carriers reported to Washington	36	35	22	30	30
Action to obtain delinquent accounting reports	5,376	3,079	2,878	2,900	3,000
Miscellaneous accounting activities	836	894	[1] 1,368	900	900

[1] Increase due to obtaining special information for Bureau of T.E. & S. on class III property carriers.

Insurance.—The number of work items performed because of carriers' failure to maintain security for the protection of the public increased during fiscal year 1962. The high in 1960 was partly due to noncompliance by applicants for grandfather rights under the Transportation Act of 1958. The maintenance of insurance is vital for the protection of the public; therefore, the extent of this activity depends entirely upon the amount of noncompliance by the carriers.

Work items	Actual			Estimate	
	1960	1961	1962	1963	1964
Investigation of failure to file insurance	3,334	2,699	3,057	2,800	2,800
Investigation of operating without insurance	524	379	393	400	400
Investigation of improper insurance filing	84	100	155	150	150
Miscellaneous insurance matters [1]	2,064	1,986	2,606	2,500	2,500

[1] This item includes checking on carrier difficulties in obtaining insurance, and interpretation of insurance regulations and requirements, and obtaining process agent compliance.

Enforcement.—Because of the loss of substantial traffic by authorized property carriers to unauthorized carriers reported in the Commission's report, "Gray Area of Transportation Opeations," a change was made in geneal field-work program effective January 1, 1960. District supervisors were assigned more time to devote to enforcement investigations by relieving them from safety activity for the last half of the fiscal year. As a result, the number of investigations intended for court action reached an alltime high in 1961 and the enforcement investigations continued at a stepped-up pace in 1962 although the number of complaints received and the number of complaints investigated was less than in 1961. The enforcement work will continue to be stressed in 1963 and 1964. As previously pointed out, the allotment of additional time for enforcement work will not necessarily increase the number of enforcement cases in direct proportion. This is because unlawful operations conducted under the guise of "buy and sell," "leasing vehicles and drivers to shippers," activities of shippers associations described in section 204(c), cooperative associations described in section 203(b)(5) of the Interstate Commerce Act, and instances of two separate entities operating in concert with one furnishing the drivers and the other furnishing the vehicles all to the end of defeating regulation are time consuming and complex. In many of these cases records are not available to the investigators and the modus operandi varies among the different guises requiring careful exploration and development necessary to prove a violation of the act. Moreover, some of these operations become the subject of formal proceeding before the Commission for determination of the issues which requires lengthy testimony of the investigator. Enforcement of the safety regulations will continue but this phase of enforcement will be limited as compared to the past with such investigations made by safety inspectors principally, for reasons explained above.

The general and rate compliance investigations of carriers' operations and practices by the field staff must be continued with rate agents making rate compliance surveys and district supervisors making general compliance surveys. In these investigations, the carriers' records and operations are carefully examined. These investigations are made to determine the degree of compliance with regulations governing collection of rates and charges; preservation of records; claim procedures; identification of vehicles; vehicle leasing practices, insurance compliance; whether unwarranted embargoes are in effect; observations of the scope of the carrier's certificate or permit; whether tariffs are posted and open to public inspection; procedure for handling unclaimed or astray shipments; possible rebates or concessions, etc. If the investigation discloses failure to comply with the regulations, the carrier is warned and administrative efforts are made to bring about compliance with the act and regulations. In selecting the carriers for this type investigation, those carriers against whom complaints have been made and those who otherwise are believed to be violating the act or regulations are first investigated. If the violations are serious and cannot be corrected by administrative action, appropriate court or Commission action is recommended.

Work items	Actual			Estimate	
	1960	1961	1962	1963	1964
Complaints of violations received	4,857	5,110	4,795	5,508	5,670
Complaints investigated and action taken	5,002	5,160	4,957	5,461	5,838
Investigations on which court action expected	997	1,227	1,141	1,232	1,358
Final investigation reports examined	1,034	1,287	1,195	1,280	1,400
Other complaints received and handled [1]	11,617	9,868	9,938	10,000	11,000
Complaint reports reviewed to determine correctness of action taken	5,296	5,719	5,082	5,500	5,850
Court appearances as Government witness	230	261	328	423	464
General investigations of carriers for compliance with regulations	2,505	2,156	1,855	1,855	1,923
Enforcement activities not otherwise described	4,113	6,752	6,578	6,700	6,800
Field reports of suspected unlawful operation [2]	----------	----------	6,122	6,000	6,000

[1] "Other complaints" are those which are not of a substantial nature and may be handled either by telephone or correspondence.
[2] New activity.

Backlog of work.—In order to provide a yardstick for determining the amount of work required for a reasonably effective job for administering and enforcing the rules and regulations of the act the following tabulation is included:

Work items	Actual			Estimate	
	1960	1961	1962	1963	1964
(1) Average number of complaint investigations, safety matters, etc., pending at end of year	5,247	5,663	5,691	5,700	5,700
(2) Number of necessary enforcement investigations	997	1,227	1,141	1,232	1,358
(3) For-hire motor carriers who have not been checked for compliance with safety regulations in over 3 years	7,318	8,524	9,459	10,161	9,425
(4) For-hire motor carriers who have not been checked for compliance with regulations, other than safety, in over 5 years	7,140	7,182	6,050	5,863	6,637
(5) For-hire motor carrier accidents involving fatalities which were not investigated to determine causes and possible preventative measures	1,004	843	959	940	900
(6) Private and exempt motor carriers who have been certified but never checked for compliance with safety regulations	49,152	53,230	50,057	54,932	59,902
(7) Estimated number of private and exempt motor carriers who have never been contacted and notified that they are subject to the Commission's motor carrier safety regulations	44,494	36,562	[1] 40,004	31,504	22,504

[1] Estimate as of June 15, 1962.

Items (1) and (2) above are based on complaints by the public and violations discovered by the staff in the regular performance of duty. Item (3) is based on past experience which indicates that an inspection must be made of each carrier's safety and maintenance practices at least once each 3 or 4 years in order to obtain compliance with the safety regulations. We are unable to do this because of the general workload. For compliance with regulations other than safety, item (4), an inspection of the records and operations of each carrier at least once every 5 or 6 years should be made. The number of for-hire carriers, item (4), that have not been checked for compliance with regulations other than safety in over 5 years is being reduced. Item (5) is based on the number of accidents being currently reported to the Commission by for-hire motor carriers, but not including private carriers. Analyses of the reports of the investigations of accidents form the basis of planning effective preventative measures and justification for many of the safety regulations. At the end of the fiscal year 1962, a total of 50,057 private and exempt carriers, out of the total that had been contacted and notified of their responsibility for compliance with the safety regulations, have not been examined as to their compliance as shown in item (6). In 1963 and 1964 fiscal years, the rate of service of the safety regulations upon private and exempt carriers will continue.

Administrative.—The number of work items performed in 1960, 1961, and 1962, have remained substantially on the same level. The additional personnel requested for 1964 will result in increased work production and consequently, a greater number of items reportable under this section. In order to avoid the necessity of supervisory employees and staff specialists doing their own stenographic or clerical work, it is proposed to increase the stenographic and clerical employees. This will enable a greater amount of productive work by the supervisory employees and specialists. The items listed below represent only a part of the detail work necessary in the accomplishment of the fieldwork. Not listed are the many other necessary but time-consuming details such as filing of correspondence, reports, tariffs, preparing exhibits, photostats, and charts; and maintaining the required office records on such matters as time worked, leave, supplies, etc.

Work items	Actual			Estimate	
	1960	1961	1962	1963	1964
(1) Man-days worked in office [1]	28,631	28,962	35,044	32,785	34,449
Man-days worked in field [1]	34,177	34,199	32,941	35,200	37,696
(2) Overtime hours worked w.o.c. (included in (1))	48,692	44,813	41,400	42,000	45,000
(3) Letters written	188,956	183,023	193,413	193,500	195,000
Memorandums written	117,577	119,980	124,811	125,000	127,000
Reports written	31,674	29,187	27,753	28,000	29,500
(4) Official telephone calls	188,365	185,576	180,983	181,000	190,000
Official interviews in office	41,906	37,973	32,633	33,000	35,000
Official interviews in field	186,203	174,641	170,663	171,000	183,000
(5) Mileage on official business (excluding travel on public carriers)	2,952,520	3,009,326	2,957,739	3,000,000	3,200,000
(6) Annual leave taken by staff (hours)	34,486	35,974	35,390	36,000	37,000
Sick leave taken by staff (hours)	9,693	8,692	12,708	10,000	10,600
(7) Special assignments	1,497	1,423	1,566	1,500	1,500
(8) Miscellaneous administrative activities	3,402	4,047	4,480	4,400	4,400

[1] Excluding clerical employees.

Mr. BOLAND. Any questions on this Bureau?

Mr. WALRATH. I might volunteer that all of that added help is in the field, and I believe most is clerical in nature. It is designed to relieve some of our professional people from detail work.

Bureau of Operating Rights

Mr. Boland. The Bureau of Operating Rights. You are asking for an increase of $222,796 occasioned by pay increases, 2 extra days, and 18 additional positions.

Put pages 115 through 121 in the record.

(The pages referred to follow:)

Bureau of Operating Rights

The Bureau of Operating Rights processes all formal proceedings involving operating rights of motor carriers, brokers, water carriers, and freight forwarders, except those matters involving consolidation and merger of such carriers and the transfer of operating rights and applications for temporary authority to perform water carrier service. The matters handled by the Bureau vary considerably in scope and include applications for new and "grandfather" motor, water, and freight forwarder operating rights, applications under section 5 in a specified class of cases; complaints and investigations which bring in issue the right of the carriers to perform service; and proceedings looking to the prescription of rules governing the carriers' operations, and to the revocation of operating rights.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	210	228	+18
Personnel compensation	$1,945,385	$2,147,776	+$202,391
Personnel benefits	144,669	159,074	+14,405
Total personal services and benefits	2,090,054	2,306,850	+216,796
Travel	121,600	127,600	+6,000
Total	2,211,654	2,434,450	+222,796

The increase of $216,796 for personal services and benefits is primarily for the 18 additional positions requested, 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793.

The increase of $6,000 for travel is to provide travel funds for the increased number of hearings to be conducted.

The following table shows the organization sections of the Bureau together with the number of positions authorized for 1963 and the number requested for 1964:

	Authorized, 1963	Requested, 1964	Increase
Director's office	33	33	
Appeals	8	8	
Certificates and captions	27	30	3
Hearings	67	71	4
Proceedings	58	69	11
Temporary Authorities Board	17	17	
Total	210	228	18

The Bureau has no control over the number of cases which it must handle. Carriers have the right to make applications for operating rights at all times, and those who desire to file complaints and other pleadings also have the right to do so.

The greatest portion of the manpower resources available to the Bureau is devoted to the handling of applications by motor carriers for operating rights. Shifts in areas of production, new shipping methods, changes in sources of supply, establishment of new plants, and the desire of motor carriers, water carriers, and freight forwarders to extend their operations and expand their services into new areas have caused a progressive and continuous increase each year in the filing of applications for operating rights. These increases in the past 5 years have averaged 5 percent per year, and it is estimated that filings will continue to increase at the same rate in 1964. However, during the 1961 fiscal year, probably as a result of the economic recession, the number of applications filed for permanent motor carrier operating authority declined. The reduction was partially offset by the filing of 187 applications resulting from Public Law 86–615, effective July 12, 1960, which provides grandfather rights for certain motor and water carriers and freight forwarders transporting persons or property in interstate or foreign commerce, within, from, and to Alaska and Hawaii. Since January 1962, a marked increased rate of filing motor carrier applications has been noted, and during the 11 months ended November 30, 1962, the new filings totaled 4,214, or an average of 383 per month. If this trend continues, it appears that the percentage of increases in filings during fiscal years 1963 and 1964 may be even greater than those experienced in prior years.

Due to the Commission's continued emphasis on carrier "fitness" and its increasing efforts to eliminate unlawful operations in the so-called "gray area" and other related transportation fields, the number of enforcement proceedings has increased, with the Commission's Bureau of Inquiry and Compliance participating in many of them. Most of these proceedings entail long and highly contested hearings, with many presenting extremely important and complex issues, and will require many more examiner workdays for processing to final determination than the ordinary application case. And, with continuing pressure by Congress and other outside interests for increased Commission activity in this enforcement area, the need to divert available manpower for the purpose of obtaining prompt decisions in proceedings of this type may be expected to increase.

As of November 30, 1962, there remained for disposition eight grandfather applications filed under the Transportation Act of 1958 which will be disposed of within the next several months. The Bureau's 4 remaining active work areas, therefore, will embrace (1) applications for operating rights, etc., (2) freight forwarder and water carrier applications and investigation proceedings, (3) rulemaking proceedings, complaints, investigations, and revocation proceedings, and (4) the Alaska-Hawaii grandfather applications, only 10 of which have been disposed of. The first three of these categories contain a number of pending unheard cases which will require substantial amounts of hearing time and examiner workdays for their disposition, and many will still be pending in one processing stage or another on June 30, 1963.

The fourth category, embracing the remaining 177 Alaska-Hawaii grandfather applications, continues to present a number of troublesome processing and decisional problems, including the holding of hearings in Alaska, and the expense of handling cases which must be heard by joint boards composed of Alaska and States such as Washington, Oregon, and Montana. To be handled, if possible, with the grandfather proceedings are approximately 100 directly related so-called new or extension applications covering operations within Alaska which were filed when Alaska became a State and prior to the enactment of the Alaska-Hawaii grandfather legislation. In addition, there are approximately 100 new or extension applications covering proposed motor carrier operations within and between Alaska and points in the continental United States. A number of the latter group of cases must be heard by multiple State joint boards; and some will require hearings in both Alaska and at points in the continental United States. Due to delay and opposition tactics of those involved, the procedural and other difficulties attendant to the processing of all of these cases have continued to increase, and the outlay in processing man-days and money required for their disposition, therefore, will be substantial.

Precedent decisions in grandfather applications involving motor operations solely within Alaska have become finalized and they will be used as a guide in disposing of this class of case. It is expected, therefore, that the Alaska Joint

Board, which has jurisdiction of these matters, can handle the remainder of these applications without further assistance by our examiners. The joint board's reports, however, will be written by our examiners.

Hearings in 19 precedent-making household carrier grandfather applications involving operations between points in the continental United States and Alaska, and in 4 Alaskan grandfather applications seeking certificates based on the same operations as those involved in several of these 19 cases have been completed. Decisions in these proceedings will provide needed precedents for deciding a large number of the pending applications presenting similar issues. Although substantial procedural, travel, and other problems are anticipated, it is estimated that about half of all these grandfather cases will be finally disposed of in fiscal year 1963, and the remainder in 1964.

A new and fifth acute work area affecting the Bureau's needs for fiscal year 1964 was created by recently enacted legislation (Public Law 87–805, approved October 15, 1962). This legislation repealed the old second proviso of section 206(a)(1) and added to that subsection two new paragraphs, which (1) provides for the issuance of so-called grandfather certificates of registration to those carriers now operating under that proviso, and (2) establishes a procedure by which single-State motor carriers seeking new or additional intrastate operating authority also may obtain, upon a proper showing, a certificate of registration authorizing comparable interstate and foreign operations.

Under the grandfather provision, those persons presently engaged in interstate and foreign commerce under the proviso, or those who would have been so engaged but for the pendency of litigation to determine the validity of their intrastate operations—to the extent that such litigation is resolved in their favor, are to be issued a certificate of registration.

In order to obtain a grandfather certificate of registration, an existing second-proviso operator must submit, within the statutory time period, a copy of his State certificate and an appropriate notice of intent to engage in interstate and foreign operations. The Commission must then determine whether the State certificate is an effective, lawfully issued, or acquired one and whether such certificate was on file with the Commission under the old second proviso. Upon finding in the affirmative in both issues, the Commission is required to issue to the applicant a certificate of registration authorizing the same operations in interstate or foreign commerce as are within the scope of operations authorized to be conducted under the State certificate.

This new statute outlines specific procedures under which a single-State carrier seeking new or additional intrastate operating authority may, upon a proper showing, also obtain a certificate of registration from the Commission granting comparable interstate rights. When filing an intrastate application with the State Commission, the applicant must state that he also seeks interstate operating authority. Notice of such desire will be published (by the Interstate Commerce Commission) in the Federal Register. The State commission, after due consideration of the proposed interstate operations, would determine whether the public convenience and necessity require that the applicant be authorized to engage in interstate and foreign commerce within the scope of the granted intrastate certificate. As a condition precedent to receiving a certificate of registration, the Interstate Commerce Commission may impose reasonable rules with respect to the filing of appropriate supporting data and may require compliance with all other applicable requirements established by or under the acts administered by the Commission. In accordance with such reasonable rules as the Interstate Commerce Commission may prescribe, any party in interest, who opposed the interstate portion of the application in the State Commission proceeding, may petition the Interstate Commerce Commission for reconsideration of the decision of the State Commission authorizing operations in interstate or foreign commerce, and upon such reconsideration upon the record made before the State Commission, the Interstate Commerce Commission may affirm, reverse, or modify the State Commission's decision, but only with respect to the authorization of operations in interstate and foreign commerce.

The law further provides that operations authorized to be conducted under either a new or grandfather certificate of registration shall be subject to all other applicable requirements of the Interstate Commerce Act and the regulations prescribed under the statute. Certificates of registration shall be valid only so long as the holder is a single-State carrier, not controlled by, controlling, or under common control with a carrier operating outside the State. Pursuant to rules and regulations which the Commission may prescribe, such certificates

of registration may be transferred but not apart from the transfer of the corresponding State certificate. Transfer of the State certificate without the interstate or foreign rights shall terminate the right to engage in interstate or foreign commerce. A holder of a certificate of registration may continue to engage in interstate or foreign commerce for a period of 6 months following termination or restriction in the scope of the intrastate certificate.

It is estimated that approximately 3,000 grandfather applications and annually 1,000 petitions for review of State actions will be received for processing. The 1964 budget includes seven attorney-advisers to handle this additional workload.

In connection with estimated disposition of cases and petitions for the fiscal years 1963 and 1964, consideration has been given to the new decisional processes of the Commission under which cases are assigned to the personal docket of individual Commissioners, and to the limitation on the right of appeal to the entire Commission from Division action. It should be noted that the new procedural techniques, including the use of decision and orders in lieu of Division or Commission reports, and the elimination of the right to review by the entire Commission except in cases involving issues of general transportation importance, have aided in maintaining the pending caseload at approximately the same level despite increased receipts over the previous year which in the case of motor carrier applications for permanent authority alone number more than 500. The Bureau's employee review board, created pursuant to the 1961 amendment to section 17 of the act, and to which certain types of cases formerly considered by Division 1 are referred for decision, also has proven effective and has provided the members of that Division with additional time for consideration of matters of greater significance.

With respect to the limitation on the right of appeal, it is difficult to estimate the number of petitions which will be filed in fiscal years 1963 and 1964, particularly in view of the recent Commission action permitting the filing of petitions seeking a determination by the entire Commission that a case, otherwise administratively final at the Division level, involves an issue of general transportation importance, and also the filing of petitions for further hearing. The effect of the present limitations in fiscal year 1963 cannot be fully determined at this time and the number of petitions received also will depend on the number of instances in which the Division affirms the hearing officer's recommendations. It is believed that the number of cases in which petitions are filed will decrease slightly in fiscal year 1963 to a point where some of the manpower now employed to process the petitions can be utilized in other work areas.

It is estimated that as of June 30, 1963, there will be pending 3,227 formal cases, other than those resulting from the new regulation, and that 5,042 new proceedings will be instituted during fiscal year 1964, a total workload of 8,269 cases. Taking into consideration the various intangibles and variables involved in the processing of a large volume of cases, the new procedures recently established by the Commission, together with what may normally be expected by way of increased production due to increased efficiency, it is quite possible that the total case inventory could be reduced to around 3,075 as of June 30, 1964.

Eight clerk-stenographer positions to perform secretarial and stenographic duties for both the hearing and nonhearing groups are requested. Four would be allotted to each group, and it is expected that these employees would contribute substantially to the efficiency and overall work performance of the examiners.

CERTIFICATES AND CAPTIONS

Three additional positions are requested in the Section of Certificates and Captions. One is required to handle the estimated increase in the workload and to reduce the pending backlog and two are required to prepare and check consolidated certificates of the larger motor carriers. At present, the section has on hand approximately 18 requests for consolidated certificates from such carriers as Consolidated Freightways and Spector Motor Lines, any of which will require the services of a certificate writer for periods ranging from 1 to 6 months or more.

Mr. WALRATH. Might I say in the Bureau of Operating Rights much of that is due to the new legislation, the amendment of the so-called second proviso section of the act.

Mr. BOLAND. Put in the record pages 122 through 131.
(The pages referred to follow:)

Bureau of Operating Rights workload statistics (number of proceedings)

	Actual			Estimate	
	1960	1961	1962	1963	1964
Applications for permanent motor carrier operating rights:					
New	4,084	3,672	4,199	4,400	4,610
Reopened	169	159	191	210	230
Total	4,253	3,831	4,390	4,610	4,840
Hearings held	3,486	3,537	3,282	3,610	3,800
Recommended reports served	3,118	3,254	3,128	3,668	3,800
Final reports circulated	1,131	1,640	1,473	1,592	1,650
Disposed of:					
Dismissed	763	879	873	905	970
Effective recommended order	1,838	1,851	1,813	1,928	2,008
Division, Commission, ORB No. 1, or ORRB	942	1,269	1,666	1,758	1,863
Total	3,543	3,999	4,352	4,591	4,841
Pending at end of year	3,097	2,929	2,967	2,986	2,985
Petitions in applications for permanent motor carrier operating rights:					
Filed	670	995	840	736	663
Disposed of	621	756	1,027	850	750
Pending at end of year	248	487	300	186	99
Applications for conversion and investigations under 212(c):					
New	0	0	0	0	0
Reopened	3	8	4	0	0
Total	3	8	4	0	0
Hearings held	30	61	0	0	0
Recommended reports served	122	112	1	0	0
Final reports circulated	155	33	3	0	0
Disposed of:					
Dismissed	8	2	0	0	0
Effective recommended order	146	101	4	0	0
Division or Commission	147	34	6	1	0
Total	301	137	10	1	0
Pending at end of year	136	7	1	0	0
Petitions in conversion and investigations under 212 (c):					
Filed	19	15	4	3	0
Disposed of	14	14	7	6	0
Pending at end of year	5	6	3	0	0
Applications for "grandfather" and "interim" motor carrier operating rights:					
New	4	0	1	0	0
Reopened	5	32	12	5	0
Total	9	32	13	5	0
Hearings held	425	175	6	6	0
Recommended reports served	551	237	30	6	0
Final reports circulated	150	202	49	20	0
Disposed of:					
Dismissed	96	32	0	0	0
Effective recommended order	286	153	10	0	0
Division or Commission	112	165	53	20	0
Total	494	350	63	20	0
Pending at end of year	383	65	15	0	0
Petitions in applications for "grandfather" and "interim" motor carrier operating rights:					
Filed	31	99	43	10	0
Disposed of	12	94	58	19	0
Pending at end of year	19	24	9	0	0

Bureau of Operating Rights workload statistics (number of proceedings)—Continued

	Actual			Estimate	
	1960	1961	1962	1963	1964
Applications for permanent water carrier operating rights:					
New	29	17	46	30	35
Reopened	1	0	8	1	2
Total	30	17	54	31	37
Hearings held	31	6	6	10	15
Recommended reports served	23	23	5	10	15
Final reports circulated	12	11	20	25	20
Disposed of:					
Dismissed	6	7	13	8	3
Effective recommended order	11	4	7	10	10
Division, Commission, or ORB No. 1	7	10	41	30	25
Total	24	21	61	48	38
Pending at end of year	33	29	22	5	4
Petitions in applications for permanent water carrier operating rights:					
Filed	4	6	9	10	10
Disposed of	4	5	10	10	9
Pending at end of year	0	1	0	0	1
Applications for freight forwarder operating rights:					
New	31	14	7	10	10
Reopened	0	1	0	0	0
Total	31	15	7	10	10
Hearings held	29	13	10	8	8
Recommended reports served	8	7	11	10	10
Final reports circulated	6	3	7	8	8
Disposed of:					
Dismissed	32	11	3	4	2
Effective recommended order	3	0	4	5	5
Division or Commission	4	4	7	10	7
Total	39	15	14	19	14
Pending at end of year	25	25	18	9	5
Petitions in applications for freight forwarder operating rights:					
Filed	3	0	1	6	5
Disposed of	0	3	0	5	5
Pending at end of year	3	0	1	2	2
Applications for motor carrier temporary authority:					
Filed	3,488	3,596	4,024	4,400	4,500
Disposed of	3,429	3,649	4,005	4,410	4,510
Pending at end of year	80	27	46	36	26
Petitions in applications for motor carrier temporary authority:					
Filed	406	483	373	400	430
Disposed of	379	522	358	400	420
Pending at end of year	61	22	27	27	37
Applications to file State certificates:					
Filed	676	803	831	800	800
Disposed of	648	808	806	850	850
Pending at end of year	93	88	113	63	13
Petitions in State certificate filings:					
Filed	0	0	11	15	20
Disposed of	0	0	6	18	20
Pending at end of year	0	0	5	2	2
Applications to deviate from regular routes:					
Filed	259	339	442	475	500
Disposed of	239	329	420	500	495
Pending at end of year	43	53	75	50	55

Bureau of Operating Rights workload statistics (number of proceedings)—Continued

	Actual			Estimate	
	1960	1961	1962	1963	1964
Alaska-Hawaii "grandfather" applications:					
New	----------	187	0	0	0
Reopened	----------	0	0	10	15
Total	----------	187	0	10	15
Hearings held	----------	0	24	80	100
Recommended reports served	----------	0	7	100	80
Final reports circulated	----------	0	3	60	83
Disposed of:					
Dismissed	----------	1	4	5	5
Effective recommended order	----------	0	2	35	30
Division or Commission	----------	0	3	55	72
Total	----------	1	9	95	107
Pending at end of year	----------	186	177	92	0
Petitions in Alaska-Hawaii "grandfather" applications:					
Filed	----------	0	3	15	20
Disposed of	----------	0	0	10	28
Pending at end of year	----------	0	3	8	0
Complaints, rulemaking and revocation proceedings:					
New	93	120	105	120	130
Reopened	19	17	18	15	10
Total	112	137	123	135	140
Hearings held	59	79	94	100	125
Recommended reports served	44	76	83	90	110
Final reports circulated	43	61	82	80	110
Disposed of:					
Dismissed	23	36	45	50	50
Effective recommended order	13	19	29	35	44
Division or Commission	41	46	74	70	100
Total	77	101	148	155	194
Pending at end of year	144	180	155	135	81
Petitions in complaints, rulemaking, and revocation proceedings:					
Filed	41	36	52	50	55
Disposed of	47	34	55	60	55
Pending at end of year	17	19	16	6	6
Petitions in deviation filings:					
Filed	0	0	11	20	25
Disposed of	0	0	6	17	20
Pending at end of year	0	0	5	8	13
Proceedings to revoke operating rights without hearing:					
Instituted	871	1,114	691	900	1,100
Disposed of	733	1,196	758	900	1,100
Pending at end of year	229	147	80	80	80
Proceedings in which recommended reports are served:					
Applications, complaints, and investigations:					
Filed, instituted or reopened	4,438	4,227	4,591	4,801	5,042
Hearings held	4,060	3,871	3,422	3,814	4,048
Recommended reports served	3,866	3,709	3,265	3,884	4,015
Final report circulated	1,497	1,950	1,637	1,785	1,871
Disposed of	4,478	4,624	4,657	4,929	5,194
Pending at end of year	3,818	3,421	3,355	3,227	3,075
Petitions:					
Filed	768	1,151	952	830	753
Disposed of	698	906	1,157	960	847
Pending at end of year	292	537	332	202	108
Total pending	4,110	3,958	3,687	3,429	3,183
Proceedings in which recommended reports are not served:					
Filed or instituted	5,700	6,335	6,373	7,010	7,375
Disposed of	5,428	6,504	6,359	7,095	7,415
Pending at end of year	506	337	351	266	226
Total all proceedings:					
Filed or instituted	10,906	11,713	11,916	12,641	13,170
Disposed of	10,604	12,034	12,173	12,984	13,456
Pending at end of year	4,616	4,295	4,038	3,695	3,409

Mr. BOLAND. Any questions on the Bureau of Operating Rights? (No response.)

BUREAU OF RATES AND PRACTICES

Mr. JONAS. For the Bureau of Rates and Practices you are asking for 107 positions. Are you not asking for any increase in positions in that Bureau?

Mr. WALRATH. That is right.

Mr. JONAS. The increase in funds requested of $72,829 is accounted for by increased pay and compensation for 2 extra days?

Mr. WALRATH. That is right.

Mr. OSTERTAG. I notice in all your justifications that you list first the number of positions as between 1963 and 1964 and then you list the total cost of personal services and benefits, which is a plus in each instance; but the increase in compensation not only covers the increased cost of new positions, but it includes the increased cost due to salary raises.

Mr. WALRATH. That is correct.

Mr. OSTERTAG. I want to make clear that this increase in personnel compensation is not limited to new positions.

Mr. WALRATH. That is right. If you will take the Bureau of Rates and Practices, where there is no increase in personnel, the increased pay accounts for practically all of that increase.

Mr. JONAS. I am not opposed to the hiring of lawyers, but I am surprised you could use so many lawyers in this Bureau instead of accountants.

Mr. WALRATH. In the Bureau of Rates and Practices, sir?

Mr. JONAS. Yes.

Mr. WALRATH. I think I know the answer, but I would like Director Corbin to answer that.

Mr. CORBIN. This is the old Bureau of Formal Cases. The name was changed a few years back. We actually hold hearings and handle the proceedings whereby the parties put in their evidence, and we try these particular rate cases. As such we do not need accountants, although sometimes we go to them to get help with cost problems that are in the record.

Mr. JONAS. That is pretty well summarized by the language on page 132. We will put the narrative and the table on that page in the record.

(The page referred to follows:)

BUREAU OF RATES AND PRACTICES

This Bureau conducts hearings on rate matters and railroad and motor carrier accidents, prepares recommended and proposed reports, proposed final drafts of reports (decisions), and makes recommendations upon pleadings and motions in the following types of proceedings: formal investigations, formal complaint and answer proceedings, investigation and suspension proceedings instituted upon protests or on the Commission's own motion, with respect to changes in rates, fares, rules, regulations, or practices proposed by railroads, motor carriers, domestic water carriers, and freight forwarders in their tariffs; consideration of applications for relief from various prohibitions in the acts administered by the Commission, particularly section 4 of the Interstate Commerce Act; and applications under section 5a of the act, from groups of

carriers or freight forwarders for approval of agreements entered into by them to govern methods of considering jointly the initiation and establishment of rates, fares, charges, divisions of revenues on joint traffic, rules and regulations affecting transportation of freight and passengers; applications and investigations arising under section 25 of the act which are subjects of oral hearing; and proceedings under section 1 of the Standard Time Act.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	107	107	0
Personnel compensation	$1,151,981	$1,220,153	+$68,172
Personnel benefits	84,243	88,900	+4,657
Total personal services and benefits	1,236,224	1,309,053	+72,829
Travel	16,500	16,500	0
Total	1,252,724	1,325,553	+72,829

The increase of $72,829 for personal services and benefits is for 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793.

The 1964 budget provides 107 positions, which is the same as authorized for the current fiscal year. These positions are separated by categories as follows:

Director	1
Assistant Director	2
Hearing examiner	33
Attorney-adviser	45
Administrative officer	1
Clerks and stenographers	25
Total	107

Mr. JONAS. This table on page 133 gives a summary of hearings and actions taken during the comparable periods 1960 through 1964. It looks to me from this table that you had pending, for example in 1960, 1,328 hearings before this Bureau, and what do you mean by the next column, "Actual 1961"?

Mr. CORBIN. The "Actual" goes over all three columns, 1960, 1961, and 1962, whereas 1963 and 1964 necessarily have to be estimates.

Mr. JONAS. Well, your business is increasing, it seems.

Mr. CORBIN. Yes.

CONSOLIDATION OF BUREAUS

Mr. THOMAS. Why can we not combine two or three of these bureaus? Why can you not combine Rates and Practices with perhaps Bureau of Operating Rights? After all, if you get a tough case you have to pull in help from four or five bureaus.

Mr. WALRATH. That is what our policy and planning committee has under study now.

Mr. THOMAS. Judge, let us quit studying and do something. You have been in business 80 years and you have an accumulation of knowledge over there that is excelled few places in the world.

Mr. WALRATH. Thank you, sir.

Mr. THOMAS. I think you could combine two or three of these bureaus. If you have a tough case you have to bring in people from all your bureaus. Let us try it and see. Maybe some of the bureau chiefs would have to take a No. 2 spot and I do not imagine that would be to their liking. Is there any advantage to a consolidation?

Mr. WALRATH. The accountants still have to do accounting work; the cost-finding people still have to do cost finding.

Mr. THOMAS. It does not make any difference where they are. The Bureau of Economics ought to be combined.

Mr. WALRATH. There are certainly potentialities there. During the past 2 years we have made substantial changes and we are working hard at it.

PROCEEDING AND PETITIONS—RATES AND PRACTICES

Mr. JONAS. The table on page 133, is that a summary of the caseload statistics on the following page?

Mr. CORBIN. Yes.

Mr. JONAS. Put the table on page 133 in the record.

(The table referred to follows:)

The following statement shows the total proceedings and petitions handled by the Bureau for the fiscal years 1960, 1961, and 1962 and estimates for 1963 and 1964:

	Actual			Estimate	
	1960	1961	1962	1963	1964
Pending beginning of year	1,328	864	917	790	768
Received during year	1,672	1,877	2,100	2,357	2,429
Disposed of during year	2,136	1,824	2,227	2,379	2,458
Pending at end of year	864	917	790	768	739
Petitions:					
Pending beginning of year	101	108	87	86	79
Received during year	495	431	418	422	448
Disposed of during year	488	452	419	429	455
Pending at end of year	108	87	86	79	72

Proceedings received during the fiscal year 1962 increased 11.9 percent over 1961. The number of proceedings disposed of during 1962, as compared with 1961, increased 22.1 percent. The number of petitions received in 1962 increased slightly over 1961, but the number of petitions disposed of in 1962 decreased 7.3 percent under 1961. This was due primarily to the increased complexity of the proceedings handled in the Appeals Unit.

BUREAU OF SAFETY AND SERVICE

Mr. JONAS. Next is the Bureau of Safety and Service. That is important. Insert page 146 of the justifications.

(The page referred to follows:)

BUREAU OF SAFETY AND SERVICE

The primary work performed by this bureau includes inspection of safety appliances, signal and train control installation, and locomotives; enforcement of car-service regulations designed to increase the utilization of railroad rolling stock; enforcement of the Hours of Service Act, Power Brake Act, accident

reporting rules, investigation of railroad accidents, and the formulation and administration of regulations for the safe transportation of explosives and other dangerous articles.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	348	348	0
Personnel compensation	$3,173,761	$3,379,172	+$205,411
Personnel benefits	239,845	253,164	+ 13,319
Total personal services and benefits	3,413,606	3,632,336	+ 218,730
Travel	638,420	638,420	0
Other objects	67,374	65,629	− 1,745
Total	4,119,400	4,336,385	+ 216,985

The increase of $216,985 for the Bureau of Safety and Service is explained in detail under the sections of the bureau.

The Bureau of Safety and Service consists of four organizational units. The following statement shows, by units, the number of positions requested for 1964 which is the same as authorized for the current fiscal year:

Director's office	7
Section of car service	92
Section of locomotive inspection	105
Section of railroad safety	144
Total	348

Effective July 1, 1962, the field organization of this bureau was reorganized into eight geographical districts, instead of nine zones, subdivided into inspection areas or work districts.

Each of the new eight districts is under the direct supervision of a district director who is responsible for the supervision of the field staff of the bureau in his district as to the administration and enforcement of the laws, rules, and regulations administered by the bureau; maintenance of an adequate and balanced work program; quality of work, training of new employees; and for promoting a high level of morale and efficiency. To carry out his responsibilities, each district director is assisted by district supervisors who provide him technical advice as well as technical guidance and training to the agents and inspectors domiciled in the district.

Mr. JONAS. General, what is the state of the art in the field of safety? Are you making any progress in that field?

Mr. TAYLOR. We are just trying to hold our own. The car supply situation, the construction of new cars, is at a low ebb. The retirement of old cars is rather high. The change in loading, the high minimums, all tend to increase orders for new, longer, higher capacity cars, which are in short supply. The Commission was required last year to issue service orders covering the loading of 50-foot and 40-foot wide door boxcars because there was an insufficient number to take care of the loading. Therefore, the railroads that had spent large sums to take care of their shippers found themselves short of cars as the carriers who had purchased no new cars started holding onto the cars of others and using them for their own loading.

LOCOMOTIVE INSPECTION

Mr. JONAS. Does this locomotive inspection service still occupy a great deal of your time?

Mr. TAYLOR. Yes.

Mr. JONAS. What do you find wrong with diesel locomotives?

Mr. TAYLOR. The electrical apparatus, mostly.

Mr. JONAS. I was snowbound in Philadelphia a year or two ago and had to sit on the train 4 hours until they could thaw out the motors. You could not help that?

Mr. TAYLOR. No, sir. They claim in all the years of operating those it was the first time the snow had blown in and caused a short.

Mr. OSTERTAG. Do you have many steam engines operating today?

Mr. TAYLOR. Very few.

Mr. OSTERTAG. Is the problem lessened by virtue of diesel locomotives as compared to the steam engines?

Mr. TAYLOR. When a steam boiler blew up that was serious and killed a lot of people. But there are more opportunities for what you might term minor injuries on a diesel locomotive than on a steam locomotive.

Mr. OSTERTAG. I wondered if the problem had lessened by virtue of the diesel locomotive compared to the steam.

Mr. TAYLOR. It did for awhile but the diesel locomotives now are getting old. As the revenues decrease the upkeep is decreased and they are getting older and you have more trouble now on the diesels than when they were new.

EMPLOYMENT

Mr. JONAS. You are not asking for any additional personnel in this Bureau in 1964?

Mr. TAYLOR. No. We would like to add some but we are not asking for any.

Mr. JONAS. You have 348. That is a pretty good little army.

Mr. TAYLOR. We have a lot of area.

Mr. JONAS. How many of these people do you have in the field?

Mr. RYAN. 267.

Mr. JONAS. 267 of the 348?

Mr. RYAN. Yes, sir.

Mr. JONAS. You are asking for $216,985 more than you had last year.

DIRECTOR'S OFFICE

You are requesting seven positions for the Director's Office. Does that include the Director?

Mr. TAYLOR. Yes.

Mr. JONAS. You are pretty well staffed there and you do not need additional people in your office.

Put page 147 in the record.

(The page referred to follows:)

Director's Office, Bureau of Safety and Service

The Director's Office exercises guidance and direction over the entire railroad safety and car service program of the Commission. The Director has specific authority for the coordination of the fieldwork and all administrative activities of the Bureau.

The assignment of work by the Commission to boards of employees resulted in the establishment of two safety and service boards to handle certain proceedings in connection with railroad safety and car service matters and the explosives and other dangerous articles proceedings. This additional volume of work has been absorbed by the present staff.

This Bureau provides technical assistance to the mobilization staff in their activities and assists in the selection and assignment of reservists. Field representatives of the Bureau are used as administrative assistants to provide Commission contact with reservists in the field. With the stepped-up tempo of the program much time is consumed by both departmental and field staffs in carrying out the responsibilities for this activity.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	7	7	0
Personnel compensation	$63,893	$67,620	+$3,727
Personnel benefits	4,762	5,020	+258
Total personal services and benefits	68,655	72,640	+3,985
Travel	2,394	2,394	0
Total	[1] 71,049	[1] 75,034	[1]+3,985

[1] The cost of operation of this Office is prorated equally among the 3 sections of the Bureau of Safety and Service.

The increase of $3,985 for personal services and benefits is for 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87-793.

SECTION OF CAR SERVICE

Mr. JONAS. Section of Car Service. Does that mean railroad cars particularly?

Mr. TAYLOR. Yes, sir. That section has to do mostly with policing of car supply and distribution, demurrage charges, investigations of discriminations, investigations of piggy-back practices, and mobilization.

Mr. JONAS. Put page 148 in the record.

(The page referred to follows:)

SECTION OF CAR SERVICE, BUREAU OF SAFETY AND SERVICE

This section administers the provisions of section 1, paragraphs 10 to 17(a), inclusive, of the Interstate Commerce Act, which comprise the car service provisions and the emergency powers of the Commission with respect to car service. It prepares regulations and emergency orders regarding the use, control, supply, movement, distribution, interchange, and return of locomotives, cars, and other vehicles used in the transportation of property. The policing of these orders is done by a field force of agents who work directly with individual railroads and industries in handling problems relating to freight car supply and the movement of traffic.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	92	92	0
Personnel compensation	$876,986	$928,407	+$51,421
Personnel benefits	68,070	71,634	+3,564
Total personal services and benefits	945,056	1,000,041	+54,985
Travel	115,000	115,000	0
Other objects	27,344	27,344	0
Total	1,087,400	1,142,385	+54,985

The increase of $54,985 for personal services and benefits is primarily for two extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87-793.

EMERGENCY MOBILIZATION

Mr. JONAS. "Mobilization" is an interesting word. How do we stand with our equipment now?

Mr. WALRATH. Mr. Alley is present. The work takes three general approaches. First of all, I assure you that on the Commission level we are, I think, in good shape and in contact with the emergency planning people on a regular and frequent basis.

When you get down to the working level, in the rail field we have made real progress in the organization of our reservists. I will let Mr. Alley give the details of this. In 40 of the 50 States—and it may have increased in the last few days—we are completely organized in the motor carrier reserve, and that has been done in close cooperation with the Governors and the trucking associations and our own people. Assistant Director Meyer can speak to that in detail.

FREIGHT CAR SUPPLY

Mr. JONAS. How many new freight cars do we have?

Mr. TAYLOR. 36,500 new freight cars were delivered during 1962. That is next to the lowest in some years. The year before it was about 31,000.

Mr. JONAS. How many were taken out of service?

Mr. TAYLOR. 85,000.

Mr. JONAS. Is that a dangerous situation? It is not a healthy situation?

Mr. Taylor. No; it is not a healthy situation.

Mr. JONAS. Is there any shortage in any section of the country of railroad cars?

Mr. TAYLOR. Yes, sir. We had some rather serious shortages right in your State.

Mr. JONAS. Particularly last fall?

Mr. TAYLOR. Yes. The mills were short of 50-foot cars for finished products. We were short in the Pacific Northwest on cars for plywood and lumber loading.

Mr. JONAS. How do you account for that shortage in the Southeast?

Mr. TAYLOR. For the reason that most of the products originating there were destined to points out of the Southeast, and they also have use for some of those large cars in heavy population centers and they keep them instead of sending them back home.

Mr. JONAS. How long can a railroad keep another company's car without getting in trouble?

Mr. TAYLOR. Indefinitely.

Mr. JONAS. By paying how much a day?

Mr. TAYLOR. $2.88 per day.

Mr. JONAS. The Commission does have authority, if you find that is subject to abuse, to correct it?

Mr. TAYLOR. Yes, sir.

Mr. OSTERTAG. You mean they can use it or just hold it?

Mr. TAYLOR. They can hold it. We would check to see if the car is held under load and being sure they pay the demurrage.

Mr. JONAS. Questions on this before we go on?

Mr. WALRATH. I misconstrued the question. I thought you meant the mobilization planning program.

MOBILIZATION OF RAILROADS

Mr. THOMAS. One question, please. Suppose this country got into serious trouble? We hope we don't but we know there is a possibility. What condition would we be in in the transportation field, particularly in railroads?

Mr. TAYLOR. My opinion is that we are in a terrible position.

Mr. THOMAS. One for cargo and one for passengers. Would we close the depots? We would have no equipment or trained labor?

Mr. TAYLOR. Passenger cars are being scrapped. Railroads could possibly handle military personnel and material in case of emergency.

Mr. THOMAS. What about the rolling stock for the freight end of it?

Mr. TAYLOR. We are not in good shape.

Mr. THOMAS. How long has all this been going on? This has been going on proportionately for 3 or 4 years?

Mr. TAYLOR. Five or six years.

Mr. WALRATH. There is a statistical story of that in pages 152 to 155.

Mr. THOMAS. How long can that go on before we really have a problem? We are in a serious condition now, let alone an emergency. We cannot continue that way.

Why is it more cars are not bought by industry?

COST OF FREIGHT CARS

Mr. TAYLOR. The price has gone up. The average 50-foot freight car now costs some $15,000. The big heavy duty flatcars they use in piggyback service run close to $16,000 each.

Mechanical refrigerator cars run close to $30,000 each.

DEPRECIATION OF ROLLING STOCK

Mr. THOMAS. Are not the rates for service commensurate? What is the amortization you grant them on these cars?

Mr. TAYLOR. It has been reduced somewhat. It was reduced to 15 years, I believe.

Mr. PAOLO. Twelve to fifteen years.

Mr. THOMAS. How about the rate of return?

Mr. TAYLOR. That is something the Commission has recommended for the past 5, 6, or 7 years. Recommendation No. 2 in the 76th annual report requests authority for the Commission to determine whether per diem charges shall be computed on the basis of cost of ownership and upon such other bases as will, in its judgment, cover such cost and encourage the acquisition of an adequate national fleet of freight cars.

Mr. THOMAS. The Commission has no authority to advise or regulate the type of equipment that an operating company has?

Mr. TAYLOR. No, sir.

Mr. WALRATH. We have legislation pending in our annual recommendations, Mr. Chairman, which we think would encourage car ownership.

Mr. THOMAS. It looks like a period of 15 years for depreciation on a car is far too long. It is not comparable to an automobile, is it? It should be longer, of course, but what about other comparable equipment, if there is such a thing as comparable equipment?

Mr. JONAS. Will the change in depreciation schedules help this situation?

Mr. TAYLOR. The only thing I have seen on it, Mr. Jonas, is a news release issued by the president of the Santa Fe Railroad saying that the change encouraged his company to purchase additional cars.

RAILROAD CAR DATA

Mr. JONAS. I notice a table on page 153 which shows an alarming set of figures. On June 30, 1959, there were new cars on order, 40,973. On that comparable date in 1962 it had dropped down to 13,274. There was a gradual decline during the 4-year period.

Mr. Chairman, I did not put those in earlier.

Mr. THOMAS. I would put them in.

Mr. JONAS. Insert pages 152 through 155.

(The pages referred to follow:)

Class I railroads and railroad owned and controlled private refrigerator car lines, fiscal years 1962, 1961, 1960, and 1959

	Box	Refrigerator	Gondola	Hopper	Covered hopper	Flat	Others	Total cars
Total ownerships:								
June 30, 1962	650,281	87,666	252,952	459,812	67,129	53,652	70,882	1,642,374
June 30, 1961	678,970	90,936	261,827	476,769	64,995	53,858	74,661	1,702,016
June 30, 1960	698,984	91,053	270,876	490,521	62,933	51,807	77,068	1,743,242
June 30, 1959	713,038	91,700	275,379	505,462	60,012	50,685	78,985	1,775,261
Serviceable ownerships:								
June 30, 1962	597,594	84,183	221,883	423,058	65,690	50,847	67,585	1,510,840
June 30, 1961	619,164	85,457	227,396	430,421	63,325	50,011	71,275	1,547,049
June 30, 1960	645,596	86,763	239,816	446,701	61,559	48,881	73,289	1,602,605
June 30, 1959	660,376	87,623	248,948	458,797	58,649	48,257	75,610	1,638,260
Percent unserviceable cars:								
Annual average, 1962	8.3	5.7	13.1	9.2	2.7	6.7	4.8	8.7
High monthly average, 1962	8.7	6.9	13.9	9.9	3.1	7.7	5.3	9.3
Low monthly average, 1962	7.9	3.9	12.3	8.0	2.1	5.2	4.4	8.0
Annual average, 1961	8.4	5.7	13.0	10.6	2.5	6.4	4.7	9.1
High monthly average, 1961	9.1	6.4	13.6	11.7	3.0	7.2	5.1	9.9
Low monthly average, 1961	7.8	5.0	12.1	9.4	2.1	5.9	4.3	8.6
Annual average, 1960	7.5	4.6	10.3	8.7	2.4	5.2	4.7	7.8
High monthly average, 1960	7.8	5.0	11.5	10.1	2.6	5.6	5.1	8.3
Low monthly average, 1960	7.1	3.9	9.5	7.5	2.2	4.7	4.3	7.1
Annual average, 1959	7.1	6.7	11.2	10.2	2.3	4.9	4.2	8.3
High monthly average, 1959	7.6	8.8	12.1	11.6	3.1	5.2	4.5	9.2
Low monthly average, 1959	6.3	4.4	9.6	9.2	1.8	4.5	3.9	7.9
Cars installed:								
1962	7,368	2,900	441	10,340	2,415	1,612	266	25,342
1961	11,742	4,394	4,555	14,427	2,042	2,253	35	39,448
1960	18,106	3,068	6,800	15,725	3,062	1,943	361	49,065
1959	8,406	1,682	5,467	10,474	3,334	1,920	548	31,831
Cars retired:								
1962	36,057	6,170	9,316	27,297	281	1,818	4,045	84,984
1961	31,756	4,511	13,604	28,179	20	202	2,442	80,674
1960	32,160	3,715	11,303	30,666	141	821	2,278	81,084
1959	26,656	6,493	12,818	29,916	192	1,218	2,996	80,289
Cars repaired (heavy repair only):								
1962	102,377	2,603	28,536	44,199	8,927	11,925	10,349	208,916
1961	86,633	3,086	19,653	45,426	8,393	10,164	9,801	183,156
1960	110,520	3,623	33,748	59,119	9,548	11,442	12,935	240,935
1959	117,702	2,949	32,501	44,943	8,061	10,224	10,256	226,636
New Cars ordered:								
1962	7,527	4,772	732	9,268	4,806	4,941	4,593	36,639
1961	8,063	2,385	2,141	6,286	2,251	4,068	3,377	28,571
1960	12,720	4,684	5,581	9,082	3,425	5,071	2,825	43,388
1959	14,433	2,761	3,755	18,706	2,890	3,101	2,642	48,288

Class I railroads and railroad owned and controlled private refrigerator car lines, fiscal years 1962, 1961, 1960, and 1959—Continued

	Box	Refrigerator	Gondola	Hopper	Covered hopper	Flat	Others	Total cars
New cars on order:								
June 30, 1962	2,818	2,847	510	2,419	1,781	1,083	1,816	13,274
June 30, 1961	2,836	1,602	1,956	2,560	575	1,332	960	11,821
June 30, 1960	9,434	3,794	4,480	7,526	927	2,063	1,331	29,555
June 30, 1959	14,144	2,385	4,245	16,442	873	1,764	1,120	40,973
Freight car surplus:								
1962—Daily average	9,166	5,275	2,889	2,386	490	415	3,972	24,593
Daily high	23,175	8,108	5,460	14,951	1,624	937	6,204	42,178
Daily low	5,327	1,755	232	3	37	156	279	9,819
1961—Daily average	12,685	5,910	10,484	15,087	987	561	4,462	50,176
Daily high	28,405	9,954	20,992	40,020	2,809	1,369	7,091	85,778
Daily low	2,355	2,633	2,325	37	145	162	778	18,632
1960—Daily average	10,546	4,193	10,350	5,530	746	597	4,326	36,288
Daily high	24,201	8,167	33,438	26,708	2,040	1,258	6,388	65,802
Daily low	5,507	803	527	30	17	58	401	16,051
1959—Daily average	12,465	4,237	6,240	6,319	1,323	906	5,411	36,901
Daily high	31,693	6,761	19,987	34,966	3,684	2,414	11,843	101,902
Daily low	2,070	1,053	411	21	22	5	1,332	13,769
Freight car shortage:								
1962—Daily average	1,861	8	65	188	117	66	8	2,313
Daily high	5,320	50	272	1,120	576	288	50	5,469
Daily low	418	0	0	0	0	0	0	428
1961—Daily average	1,221	0	16	84	46	11	2	1,380
Daily high	6,071	13	181	808	189	78	20	6,617
Daily low	111	0	0	0	0	0	0	120
1960—Daily average	1,109	5	79	196	88	61	36	1,517
Daily high	4,067	121	360	1,640	420	388	175	4,505
Daily low	193	0	0	0	0	0	0	359
1959—Daily average	1,348	1	120	303	88	61	36	1,957
Daily high	6,297	21	578	1,940	420	388	175	7,495
Daily low	79	0	0	0	0	0	0	145
Turn around time (calendar year), 52 weeks:								
1961	19.76	32.33	22.47	17.13	21.85	15.06	----------	19.85
1960	19.18	31.51	20.99	16.41	20.94	15.59	----------	19.16
1959	18.12	30.68	20.89	17.51	19.53	18.07	----------	19.00
1958	18.95	30.79	23.00	18.50	21.00	22.37	----------	20.17
Total revenue and nonrevenue carloadings (calendar year):								
12 months, 1961	11,304,629	1,166,420	3,465,346	8,935,621	1,105,330	1,345,974	2,930,091	30,253,411
Percent of total loadings	37.37	3.85	11.45	29.54	3.65	4.45	9.69	100.00
12 months, 1960	12,101,483	1,207,932	3,871,628	9,733,244	1,097,394	1,179,394	3,119,269	32,310,34
Percent of total loadings	37.45	3.73	12.00	30.12	3.40	3.65	9.65	100.00
12 months, 1959	12,911,605	1,239,451	4,019,854	9,364,278	1,103,152	975,446	3,200,235	32,814,021
Percent of total loadings	39.35	3.78	12.25	28.54	3.36	2.97	9.75	100.00
12 months, 1958	12,806,960	1,272,197	3,808,174	9,326,435	961,707	766,414	3,053,408	31,995,295
Percent of total loadings	40.03	3.98	11.90	29.15	3.01	2.40	9.53	100.00

LOCOMOTIVE INSPECTION

Mr. JONAS. The Section of Locomotive Inspection, page 156, is next. Insert that page in the record.

(The page referred to follows:)

SECTION OF LOCOMOTIVE INSPECTION, BUREAU OF SAFETY AND SERVICE

The Director of Locomotive Inspection is charged with the administration of the Locomotive Inspection Act enacted to promote safety of employees and travelers upon railroads by making it unlawful for any carrier to use or permit to be used on its line any locomotive unless the locomotive and all parts and appurtenances thereto appertaining have been inspected as required, and are in proper condition, safe to operate, and comply with the approved rules and regulations established under the act. The primary function of this section is to determine that required inspections of locomotives are made by the carriers; that defects disclosed by these inspections are repaired before the defective locomotive is returned to service; that general design, construction and repair practices comply with the requirements and promote maximum safety in order that accidents and casualties be minimized by the elimination of unnecessary hazards.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	105	105	0
Personnel compensation	$908,815	$964,689	+$55,874
Personnel benefits	67,235	71,031	+3,796
Total personal services and benefits	976,050	1,035,720	+59,670
Travel	220,870	220,870	0
Other objects	19,080	19,410	+330
Total	1,216,000	1,276,000	+60,000

The increase of $59,670 for personal services and benefits is for 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87-793.

Mr. JONAS. You ask for the same number of positions in this Bureau that you had in 1963, namely 105, a slight increase due to increased benefits, and the 2 extra days, increase amounting to $60,000. You have an increase there in other objects of $300. What is that for?

Mr. RYAN. Primarily due to increase cost of materials.

Mr. JONAS. I think the narrative on page 157 is important. Insert page 157 in its entirety and the table on page 159.

(The material referred to follows:)

The 1964 budget request provides for 105 positions to carry out the program for the enforcement of the Locomotive Inspection Act. To provide a full safety program with the minimum number of position, a reorganization of the field staff was undertaken as of July 1, 1962. The purpose of the reorganization is to provide closer supervision and better utilization of personnel for all phases of work. The primary duty of the district inspector is to see that the railroads are making proper inspections on all locomotives and to be informed of the condition of motive power in his district by personally inspecting locomotives at various railroad faciilties. Whenever dangerous conditions are found requiring immediate repairs, the locomotive is formally ordered withheld from service until properly repaired. All reports of inspections, regardless of defective conditions found, are transmitted to the chief mechanical officials of the railroads involved for action. Other duties of the district inspector are checking company records for reported defects, observing shop practices and repairs, interviewing company mechanical officials regarding conditions and practices in their

jurisdiction, and when accidents occur which come within the purview of the act, make a complete field investigation and report his findings to the Washington office. These accident reports are analyzed by the section's mechanical engineers and facts found are frequently used to prevent similar accidents.

The railroad industry today is operated almost entirely with diesel-electric locomotives. Diesel-electric locomotives, with their electric generators and traction motors, require the use of a large number of controls, relays, and intricate protective devices. In addition, modern locomtives are used for the hauling of greater tonnage at higher speeds for longer distances than in prior years. To detect defects before they result in accidents and serious casualties, more frequent and detailed inspections are required.

Fiscal year	Accidents	Casualties	Fiscal year	Accidents	Casualties
1946	457	505	1955	83	145
1947	400	523	1956	73	83
1948	382	426	1957	75	90
1949	277	320	1958	72	86
1950	220	244	1959	66	90
1951	221	315	1960	50	81
1952	196	207	1961	71	77
1953	134	162	1962	67	73
1954	105	305			

WORKLOAD STATISTICS

The workload statistics shown in the following table cover the main work of our field forces for the fiscal years 1960, 1961, and 1962, inclusive, and estimates for the fiscal years 1963 and 1964. Years of experience have proven that a full and vigorous program of field inspections is necessary if any improvement in railroads' motive power is to be expected. As noted in the table, the percentage of locomotives inspected and found defective remained the same as in the previous year of 1961. Due to the reduction in size of the inspectional force for the 1962 fiscal year, every effort was required on the part of each inspector to keep the percentage of locomotives inspected and found defective from increasing over the previous year. To continue the enforcement of the locomotive inspection law with a reduced inspection force coupled with the financial problems of the Nation's railroads can only lead to a marked rise in defective equipment with resulting accidents and casualties. Estimated rise in defective motive power for the years 1963 and 1964 is based on two things; first, the increase of the average age of the power, and second, because of the financial situation confronting the railroad industry as a whole.

Mr. THOMAS. The table shows how the incidence of accidents has diminished beginning from 1946 and running through 1962. That would indicate that either your locomotive inspection work is more efficient or that the companies themselves have improved their own inspection services. Which would you say it is?

Mr. TAYLOR. I would say it is a combination of both.

Mr. JONAS. You wouldn't take all the credit?

Mr. TAYLOR. No, sir.

TRAVEL EXPENSES—LOCOMOTIVE INSPECTION

Mr. JONAS. You want just your part of it.

Page 161 contains an explanation of travel expenses. We might insert that in the record.

(The page referred to follows:)

EXPLANATION OF TRAVEL EXPENSE

The amounts requested in the items of travel and per diem which comprise the travel expense of the section represent the amount necessary for compliance with section 6 of the Locomotive Inspection Act, which in part requires that each

inspector visit at frequent intervals the railroad facilities in his district to determine the degree of carrier's compliance with the laws and rules. The efficiency of the section is thus related to the actual time inspectors can devote to the performance of their normal activities at the numerous railroad terminals in their districts. It is necessary that each district inspector have available approximately 176 days to devote to field inspections and related duties in fiscal year 1964 to permit the section to carry out its program. Any curtailment of the minimum time essential to properly police field inspection points will decrease the efficiency of the work of the section and will adversely affect the promotion of safety of employees and travelers upon railroads, the object for which the act was enacted by the Congress.

Mr. JONAS. Now we come to the section of railroad safety, Bureau of Safety and Service, activity No. 5. Insert page 162 and the narrative on 163 in the record.

(The material referred to follows:)

SECTION OF RAILROAD SAFETY—BUREAU OF SAFETY AND SERVICE

The major objectives of this section are the enforcement of the safety appliance laws, which include the power brake law of 1958; the Ash Pan Act; the hours of service law; the Accident Reports Act; the signal inspection law; the Sundry Civil Appropriation Act of 1908, relating to investigation of safety appliances or systems intended to promote the safety of railway operation, and which provides for the inspection of postal mail cars, and/or the examination of the construction of such cars on any railroad in the United States; the transportation of explosives law, which authorizes the Commission to formulate regulations and orders for the packaging and transportation of explosives and other dangerous articles by land or water, and the policing of their movements; and that part of the Medals of Honor Act, which provides for the award of lifesaving medals to persons who shall, by extreme daring, endanger their own lives in saving or endeavoring to save lives upon any railroad within the United States.

Comparison of 1964 budget with 1963 appropriation.

	1963	1964	Change
Positions	144	144	0
Personnel compensation	$1,387,960	$1,486,076	+$98,116
Personnel benefits	104,540	110,499	+5,959
Total personal services and benefits	1,492,500	1,596,575	+104,075
Travel	302,550	302,550	0
Other objects	20,950	18,875	−2,075
Total	1,816,000	1,918,000	+102,000

The increase of $104,075 for personal services and benefits is for 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793.

To obtain compliance with the various laws and orders of the Commission promulgated thereunder, a qualified staff of district directors, district supervisors, field supervisors, agents and inspectors is maintained with headquarters strategically located at railroad centers throughout the United States. The effectiveness of the law enforcement activities of the section are directly related to the ability of the field staff to make inspections with uniform frequency. It has been found that where inspections are not made at regular intervals, compliance with the laws and orders administered by the section deteriorates in proportion.

In the past few years and continuing to the present time, a considerable number of new freight classification yards of the electronic-retarder type have been built and placed in service. These new terminals have usually replaced several smaller yards in the same switching district. Agents and inspectors of the section have had some of their work consolidated as a result of the new yards, however, an increased educational task was placed upon them because of the new and different mechanical and organizational setups encountered.

The field headquarters cannot all be located at or near major railroad terminals. Therefore, travel is required in order that each representative of the section might carry out his law enforcement duties.

Mr. JONAS. Here is another activity where you think you can get along without an increase in personnel, but you do have a substantial increase dollarwise, $102,000 for the year. You have a slight reduction there in other objects of $2,000 which is encouraging.

RAILROAD SAFETY STATISTICS

Mr. JONAS. There is some statistical information in the justifications on page 166 and page 167. It might be well to insert that in the record.

(The pages referred to follow:)

The following statements show the work performed by the Section of Railroad Safety during the fiscal years 1960, 1961, 1962, and the estimated workloads for the fiscal years 1963 and 1964:

Safety appliances

Fiscal year	Freight cars inspected	Passenger cars inspected	Locomotives inspected	Total units inspected	Number of prosecutions filed	
					Suits	Counts
1960	1,579,463	34,669	122,151	1,736,283	326	1252
1961	1,524,056	35,396	111,516	1,670,968	234	680
1962	1,416,097	35,963	110,007	1,562,067	252	636
1963 [1]	1,600,000	35,000	125,000	1,760,000	300	1200
1964 [1]	1,600,000	35,000	125,000	1,760,000	300	1200

[1] Estimated.

Hours of service

Fiscal year	Hours of service reports tabulated	Instances of excess service reported	Instances investigated	Number of prosecutions filed	
				Suits	Counts
1960	6,916	3,251	2,320	39	177
1961	1,652	3,201	1,959	39	167
1962	655	2,783	1,767	43	131
1963 [1]	600	2,500	1,800	35	175
1964 [1]	600	2,500	1,800	35	175

[1] Estimated.

Accident investigation

Fiscal year	Number of accidents reported	Number of accidents investigated	Number of prosecutions filed for failure to report	
			Suits	Counts
1960	376	43	19	39
1961	343	32	14	280
1962	348	29	10	130
1963 [1]	400	50	20	300
1964 [1]	400	50	20	300

[1] Estimated.

Signals and train control

The following statement shows the signal and train control applications received, and the signal and train control inspections made for the fiscal years 1960, 1961, 1962 and the estimated workloads for the fiscal years 1963 and 1964:

Fiscal year	Signal and train control applications received	Signal and train control inspections made	Number of prosecutions filed	
			Suits	Counts
1960	331	4,495	5	22
1961	286	4,560	7	21
1962	249	4,507	4	6
1963 [1]	275	4,600	10	30
1964 [1]	300	4,600	10	30

[1] Estimated.

Explosives

Fiscal year	Special permits in effect	Special permits issued	Prosecutions recommended	
			Suits	Counts
1960	426	787	15	45
1961	388	691	34	61
1962	469	832	36	63
1963 [1]	400	750	40	70
1964 [1]	475	850	30	57

[1] Estimated.

Mr. JONAS. These tables do not show much stepup in activity from 1960 to 1964. Is that due to the fact you have fewer cars?

Mr. TAYLOR. Partially. It is due primarily to the passage of the power brake law which has taken a considerable portion of our field agents' time, checking to see that the railroads make proper inspection of the airbrake equipment on the trains before leaving terminals. That would require approximately 20 or 30 percent of the time of the field people, which is a new requirement for the people in the field.

Of course, when they are making airbrake inspections in a terminal they usually have an opportunity to inspect a number of freight cars for defects, but it has reduced the number of our inspections somewhat.

Also in the past year it seems we have had a fairly large number of vacancies due to older employees retiring.

Mr. JONAS. May I inquire if you mean that out of 1,579,000 freight cars inspected in 1960 you filed prosecutions in 326 cases?

Mr. TAYLOR. The prosecutions for the last year would be 252 suits, with 636 counts. That is on the safety appliances.

Mr. JONAS. Does that information you have just given mean that was the total number of violations you found out of 1½ million inspections?

Mr. TAYLOR. No, sir. When on regular inspections work, one inspector will go into a terminal and take an officer of the railroad company with him and make inspections of equipment. They usually find a number of safety appliance defects.

It is not a violation of law on the part of the railroad until they use the defective equipment. If a defective car is standing in the yard there is no violation of law.

Mr. JONAS. I understand that, but you brought 252 suits.

Mr. TAYLOR. Yes, sir; but that was on railroads which were detected moving defective equipment.

Mr. JONAS. You found 252 such cases which were sufficiently damaging to cause you to bring suit?

Mr. TAYLOR. That is right.

Mr. JONAS. That is all we have in that section, Mr. Chairman.

BUREAU OF TRANSPORT ECONOMICS

Mr. THOMAS. Let us take a look at the Bureau of Transport Economics. Insert pages 185 and 186 in the record.

(The pages referred to follow:)

BUREAU OF TRANSPORT ECONOMICS AND STATISTICS

This bureau is the primary source of financial and statistical data necessary to the Commission for the proper performance of its regulatory functions as set forth in the national transportation policy. In this connection, the bureau has three principal functions: (1) make economic and statistical research in the field of transportation, (2) prepare the Commission's official statistics of the financial and operating results of the various classes of carriers subject to its jurisdiction, and (3) make recommendations as to the Commission's policy in connection with these matters.

In the performance of its functions the bureau each year collects, reviews, processes, and tabulates thousands of annual and periodic reports from all classes of carriers, and publishes a series of statements based thereon representing the official statistics of the Commission. These statistical statements and their underlying data constitute the primary source of information for the research and analytical functions of the bureau, as well as for the use of the Commission and interested parties in rate and other Commission proceedings. The work relationship of the bureau extends not only to the Commission but to virtually all of the bureaus. Thus the bureau serves (1) in an advisory capacity to all bureaus with respect to economic effects, and (2) in the supply, explanation, and analysis of statistics.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	180	188	+8
Personnel compensation	$1,143,022	$1,269,159	+$126,137
Personnel benefits	84,399	93,381	+8,982
Total personal services and benefits	1,227,421	1,362,540	+135,119
Travel	4,000	8,000	4,000
Total	1,231,421	1,370,540	+139,119

The increase of $135,119 for personal services and benefits is requested primarily for the eight additional positions, two extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793. The increase of $4,000 for travel is primarily to provide adequate travel funds for the economic counsel staff and to provide basic research and analysis for formulation of Commission policy.

Number of positions authorized, 1963 and requested for 1964

Section and Branch	Authorized, 1963	Increase, 1964	Requested, 1964
Director's Office	18	0	18
Economic Counsel	0	3	3
Subtotal	18	3	21
Section of Reports:			
Office of Chief of Section	5	0	5
Annual Reports Branch	43	0	43
Current Reports Branch	16	0	16
Accidents Reports Branch	7	0	7
Subtotal	71	0	71
Section of Research:			
Professional	15	3	18
Clerical	4	2	6
Subtotal	19	5	24
Section of Traffic Statistics:			
Office of Chief of Section	3	0	3
Processing Branch	6	0	6
Review and Analysis Branch	5	0	5
Data Processing Branch	[1] 43	0	43
Milling Branch	1	0	1
Certificates and Permits Branch	14	0	14
Subtotal	72	0	72
Bureau total	180	8	188

[1] The Mechanical Tabulation Branch, Section of Reports was abolished Aug. 17, 1962; the positions were transferred to the Tabulation Branch, Section of Traffic Statistics and renamed the Data Processing Branch.

NOTE.—As shown by the table, 8 additional positions are requested for fiscal year 1964 for this bureau.

Economic Counsel	2
Economist	3
Secretary—stenographer	3
Total	8

POSSIBLE CONSOLIDATION OF BUREAUS

Mr. THOMAS. What is the jurisdiction of this Bureau? Does it overlap with the Bureau of Accounts? We have 188 in this Bureau and you have 189 in the Bureau of Accounts. You have around 450 people right here. Can we save any time and money without hurting anybody by consolidating these bureaus and speeding up matters? This is all high-grade and skilled work.

How many unfilled jobs do you have in your Bureau now?

Mr. MARGOLIN. About eight, which is about normal.

Mr. THOMAS. Is it hard to get the type of personnel you want? Are most of them professional?

Mr. MARGOLIN. Yes to the first and no to the second question, sir.

Mr. THOMAS. Let us turn to the back of the book and see the type of personnel you have. The Bureau of Accounts has six 14's, three 13's, seventeen 12's, thirty 11's. Those are all in the field. What do you have downtown? In the Bureau of Transport Economics you show one 17, one 16, two 15's, nine 14's, ten 13's, eight 12's, three 11's, and 154 grade 9's and below.

The Bureau of Accounts has the Director at 17, which is all right, except it should be more, one 16, four 15's, seven 14's, and so on. What

is the necessary educational background for these two bureaus? What are the qualifications for the top people?

Mr. MARGOLIN. First, Mr. Chairman, the Bureau of Transport Economics and Statistics has a comparatively small proportion of professional people.

Mr. THOMAS. You have made that speech before and I want you to emphasize it good now.

Mr. MARGOLIN. I have not used the same words before, sir.

The professional staff, I would judge right now, without checking the figures, consists of about one-sixth or one-seventh of the organization. These are primarily in the professional area, the economists, most of whom have a master's degree, doctor's degree, and so on. The others are statisticians, mathematical statisticians, all of whom have at least the minimum of a college degree, and some higher.

With regard to your comment with respect to the consolidation of two bureaus, they perform, in practically all instances, functions which are different. We have very little duplication.

Mr. THOMAS. Spell that out.

FUNCTION OF THE BUREAU OF ACCOUNTS

Mr. MARGOLIN. If I may refer to Director Paolo here, in their accounting functions they are concerned primarily with the establishment of the accounting systems for those carriers subject to their jurisdiction, which accounts for about 4,000-plus carriers.

They are also concerned with the compliance with those systems.

On the other hand, the——

Mr. THOMAS. All of them are accountants in his section, and in your section they are economists, statisticians, and so on?

Mr. MARGOLIN. Plus the necessary clerical help.

FUNCTION OF THE BUREAU OF TRANSPORT ECONOMICS

In our Bureau we are concerned with some 19,000 carriers which file reports. We are concerned with proper reporting requirements and the adequacy of reports' data that are submitted by some 19,000 carriers. We are not only concerned with the information required by the accounting people in accordance with the accounting schedules, but we are equally concerned with the matter of traffic information and operating information which the Bureau of Accounts does not have any interest in.

In connection with these 19,000 carriers, we are constantly negotiating with representatives of these groups on various changes they want to make in reporting. This is due partially to technological changes and many other things which the carriers think will lighten their burden, and so on.

If I may cite a specific illustration, there has been some discussion about piggyback traffic. At the present time the Commission does not collect or have any information regarding piggyback movements except that put out by the AAR, which collects the information from the individual railroads.

We have a program underway now at a staff level under which we have been negotiating with carriers—motor carriers, railroads, freight forwarders, and water carriers—and we will present proposals to the Commission when we think it has reached the proper point. We will endeavor to collect those data with respect to piggyback movements which meet the Commission's need and put a minimum burden on the carriers.

This is the type of activity with which we are concerned and the Bureau of Accounts has no interest. That is only one illustration.

Mr. BOLAND. You supply all this information to all the bureaus. Is this true?

Mr. MARGOLIN. All the bureaus and many parties on the outside for a variety of purposes.

Mr. JONAS. Do you sell any of these reports?

Mr. MARGOLIN. Most of our statistical reports are not for sale. They are made available to those who need them.

Mr. JONAS. The industry has access to them?

Mr. MARGOLIN. That is right.

Mr. JONAS. Free of charge?

Mr. MARGOLIN. Except a few, for example, Transport Statistics in the United States, that is right. There has been an increase in demand for these publications.

Mr. JONAS. Page 185 has been inserted in the record, and page 186 has been inserted which shows a breakdown of the positions and your requested increase of 188 for 1964.

We shall insert the narrative beginning on page 187 down to the caption "Director's Office."

(The material referred to follows:)

BUREAU OF TRANSPORT ECONOMICS

The statistical operations as well as research and related analytical work of the Bureau are continuing to undergo substantial expansion and change. The expansion reflects the Commission's action of June 5, 1961, emphasizing the need for increased activity in transport policy analysis and research activities, and for economic counsel participation in selected cases of transportation importance.

Underlying the importance attached by the Commission to these activities is the prevailing high level of interest in existing and emerging transportation problems which have been occasioned by the changing character of our national life and economy. This interest is likely to be sustained indefinitely as evidenced by the President's recent transportation message and implementing legislation as well as by related activities in the legislative branch of the Government.

The Bureau of Transport Economics and Statistics is providing substantial staff resources in support of the Bureau of Inquiry and Compliance in two major railroad merger proceedings pending before the Commission and was recently requested to provide similar assistance in ex parte 230, substituted services—charges and practices for for-hire carriers and freight forwarders (piggyback service)—rulemaking. It is anticipated that the Bureau will be called upon increasingly to provide such services.

The Inventory of Motor Carrier Authorities has reached operational status and its uses are expected to undergo further development throughout fiscal year 1963. The Commission has long been aware of the need for the kind of information now available from IMCA and has devoted substantial resources to its development. The fruits of these efforts are beginning to be realized and will grow during the coming fiscal years.

The Bureau is now in the process of converting its statistical operations to a modern electronic computer (RCA 301) which was installed early in December 1962. Also, the Commission has established under the Office of the Managing Director an ICC study team which is conducting studies directed to the long-range development of means to apply modern electronic data processing systems to the work of the Commission. The character of the Bureau's operations, the increased emphasis on research and analysis, the development of economic counsel functions and underlying requisite staff support, the need to modernize reporting requirements and other factors strongly suggest that the feasibility studies will involve many of the Bureau's operations.

In connection with the administration of the Commission's reporting systems, the Bureau conducts a regular and continuing reports improvement program. Also, the Bureau actively participates in the work of the Commission's staff committee on the reduction of paperwork burden. Despite these efforts, the Commission is of the view that more emphasis and resources should be devoted to the general upgrading of the Bureau's entire reports system. The objective of the Commission's program is to assure the collection of the data essential to the conduct of its regulatory functions, that it is collecting only essential information, and that modern statistical and data-processing techniques are fully utilized. The reporting burdens imposed upon the carriers should be held to the minimum necessary to provide the Commission with data on the regulated carrier industry, consistent with Commission purposes and consistent with the general responsibility of the Commission. Indicative of the need for major emphasis on a complete reexamination of reporting requirements, it was stated in the 1962 report of a House Subcommittee on Census and Government Statistics:

"Every reporting system initiated prior to World War II should be given a special review to determine its usefulness."

The same subcommittee, in a 1961 report, on the other hand, stated:

"A Government agency which collects information from the public has a responsibility to publish the information in useful and timely summaries.

"The increasing complexity of the transportation segment of the Nation's economy will require more, rather than less, statistical data. It is important that efforts be directed toward eliminating existing gaps in transportation data."

A general examination and revision of the Commission's reporting system requires that the Bureau have the means available to take full advantage of the advances made in recent years in statistical reporting techniques and data-processing equipment.

DIRECTOR'S OFFICE

Mr. JONAS. In the Director's Office you want to increase your 18 positions to 21. What are these men to do?

Mr. MARGOLIN. That is in conjunction with the discussion we had this morning with respect to the economic counsel. There is an increase for the Bureau of eight. These will be two economic counsel and a stenographic person, and an increase of five in the research. This would be three economists with two clerical assistants.

Mr. JONAS. So the three positions to be added to the Director's Office includes two economists——

Mr. MARGOLIN. Two counsel, called economic counsel, and one secretary.

Mr. JONAS. Insert the table and narrative on pages 188 and 189 in the record.

(The pages referred to follow:)

DIRECTOR'S OFFICE, BUREAU OF TRANSPORT ECONOMICS AND STATISTICS

This Office directs and supervises the work of the Bureau; coordinates and expedites the work of the various sections of the Bureau; participates with and assists other bureaus in matters of mutual concern; and administers all policy

matters relating to the work of the Bureau. It also handles all personnel and administrative matters of the Bureau, and furnishes typing service to the various sections. The economic counsel staff assists the Commission by assuring the development of an adequate record in selected cases of transportation importance, drawing ecoonmic, technical, advisory, regulatory, and informational services from bureaus and offices of the Commission and other available sources.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	18	21	+3
Personnel compensation	$115,409	$146,114	+$30,705
Personnel benefits	8,599	10,840	+2,241
Total personal services and benefits	124,008	156,954	+32,946
Travel	800	3,000	+2,200
Total	124,808	159,954	+35,146

The increase of $32,946 for personal services and benefits is requested primarily for the three additional positions, two extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793. The increase of $2,200 for travel is requested primarily to provide adequate travel funds for economic counsel to participate in Commission proceedings.

The 21 positions provided in the 1964 budget for this Office are separated by categories as follows:

Director	1
Assistant Director	1
Assistant to Director	1
Administrative assistant	1
Attorney	2
Clerk, stenographer, and typist	15
Total	21

The 1964 budget provides two attorney positions and one stenographic position for the economic counsel staff. Economic counsel will appear in a selected or limited number of cases of major importance, drawing economic, technical, advisory, regulatory and informational services from bureaus and offices of the Commission by assuring the development of an adequate record, including proper representation of the public interest, without taking an advocatory position, except as directed by the Commission. There may also be participation in other types of cases where the Commission anticipates, or becomes aware, that the issues are such that the record has not been made complete or probably would not be complete.

SECTION OF REPORTS

Mr. JONAS. In the section of reports you say you can get along with only 71 people next year?

Mr. MARGOLIN. So I have been told, sir.

Mr. JONAS. You mean you would like to have had a few more?

Mr. MARGOLIN. Hypothetically, yes, sir.

Mr. JONAS. That is if you had your way about it. You are not asking for any?

Mr. MARGOLIN. That is right.

Mr. JONAS. At least the Budget Bureau didn't authorize you to ask for any.

Insert the table and narrative on page 190 and the table on 191 in the record.

(The material referred to follows:)

SECTION OF REPORTS, BUREAU OF TRANSPORT ECONOMICS AND STATISTICS

The Section of Reports is engaged in the preparation of the Commission's official statistics regarding the financial and operating conditions of all surface carriers subject to the Interstate Commerce Act; provides basic financial and statistical data used by this and other bureaus of the Commission, the Congress, the transportation indusry, governmental agencies and other interested parties; establishing financial, statistical and accounting reporting requirements, and reporting policies for: (1) Financial returns, (2) operating statistics, (3) railroad accident reporting; enforcing the reporting requirements, policies, and procedures as to the time of submission of reports, accuracy and completeness and conformance with policies, prescribed procedures, and special instructions; and furnishing industry and Government representatives with information regarding reporting regulations and data contents of reports. These carriers aggregate 20,000 in number, report approximately $21 billion of revenue annually, and represent about $46 billion in investment in transportation property.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	71	71	0
Personnel compensation	$437,358	$463,239	+$25,881
Personnel benefits	32,459	34,243	+1,784
Total personal services and benefits	469,817	497,482	+27,665
Travel	600	600	0
Total	470,417	498,082	+27,665

The increase of $27,665 for personal services and benefits is requested primarily for 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793.

The 71 positions provided in the 1964 budget for this Section are separated by categories as follows:

Chief and assistant chief of section	2
Statistical officer	2
Economist	1
Accountant and accounting technician	20
Statistical assistant	5
Statistical clerk and clerical	41
Total	71

The Section of Reports comprises three Branches and the Office of Chief of Section. The 71 positions included in the 1964 budget for this Section by units are as follows:

Office of Chief of Section	5
Accident Reports Branch	7
Annual Reports Branch	43
Current Reports Branch	16
Total	71

The number of reports received from carriers during the fiscal years 1960, 1961, and 1962 together with estimates of the number to be received in 1963 and 1964 are shown in the following table:

Type	1960	1961	1962	1963	1964
Annual	17,793	18,792	18,420	18,500	18,500
Monthly and quarterly [1]	45,486	42,840	39,416	37,790	37,220
Rail accident and supplements	30,369	31,756	41,853	42,000	42,000
Total	93,648	93,388	99,689	98,290	97,720

[1] Includes certain annual reports processed by the Current Reports Branch.

SECTION OF RESEARCH

Mr. JONAS. You have a Section of Research, and that is the other Section in which you ask for additional personnel, the five to which you already alluded.

Mr. MARGOLIN. Yes, sir.

Mr. JONAS. Insert the table beginning at the bottom of page 192 down through the table at the top of page 193.

(The material referred to follows:)

SECTION OF RESEARCH, BUREAU OF TRANSPORT ECONOMICS AND STATISTICS

The primary responsibilities of the Section are (1) provide the Commission with special economic or statistical studies, analyses, and information relating to transportation problems; (2) perform basic economic research helpful to the Commission in the performance of its function of regulating transportation in the public interest; (3) provide textual and analytical materials as well as economic and statistical data for various Commission and Bureau publications; and (4) provide statistical and economic staff support in connection with economic counsel and other proceedings support activities.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	19	24	+5
Personnel compensation	$178,329	$223,433	+$45,104
Personnel benefits	13,035	16,315	+3,280
Total personal services and benefits	191,364	239,748	+48,384
Travel	1,400	3,200	+1,800
Total	192,764	242,948	+50,184

The increase of $48,384 for personal services and benefits is requested primarily for the five additional positions, 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87–793. The increase of $1,800 for travel is to provide adequate travel funds for increased emphasis on basic research and analysis.

The 24 positions provided in the 1964 budget for this section are separated by categories as follows:

Transportation economist	17
Economics assistant	1
Statistical assistant and clerk	4
Secretary	2
Total	24

The 1964 budget provides five additional positions for this section, namely three transportation economists and two clerical positions.

SECTION OF TRAFFIC STATISTICS

Mr. JONAS. Section of Traffic Statistics is another section in which you seem to be satisfied with the number of people you had in 1963. Do you think you can get along and do your work with 72 people?

Mr. MARGOLIN. Same comment as heretofore.

Mr. JONAS. Insert the table on page 194 and the table at the top of page 195 in the record at this point.

(The material referred to follows:)

SECTION OF TRAFFIC STATISTICS, BUREAU OF TRANSPORT ECONOMICS AND STATISTICS

The Section of Traffic Statistics prepares the Commission's official statistics on rail carload traffic from a 1-percent waybill sample, uses these data for special and continuing studies such as freight rate indexes and estimates of the revenue effect of rate changes, and issues a continuing series of annual and quarterly publications based on the sample data which analyze carload terminations by various distributions of traffic characteristics. Motor carrier operating authorities are interpreted for statistical purposes, coded by commodity, type of operation, area of operation, and other categories of information and converted to punchcard records for special and recurring analyses. The Section operates both mechanical and electronic data processing equipment for this work as well as other data processing needs of the Bureau and of other bureaus and offices of the Commission.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	72	72	0
Personnel compensation	$411,926	$436,373	+$24,447
Personnel benefits	30,306	31,983	+1,677
Total personal services and benefits	442,232	468,356	+26,124
Travel	1,200	1,200	0
Total	443,432	469,556	+26,124

The increase of $26,124 for personal services and benefits is requested primarily for 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87-793.

The 72 positions provided in the 1964 budget for this section are separated by categories as follows:

Analytical statistician	2
Statistical officer	1
Assistant branch chief	1
Statistician	2
Digital computer programer	4
Transportation specialist	1
Tabulating project planner	1
Statistical assistant, statistical clerk, and clerk	60
Total	72

The Section, in addition to the Chief's Office, has five organizational units included in the 1964 budget as follows:

	Positions
Office of Chief of Section	3
Processing Branch	6
Review and Analysis Branch	5
Data Processing Branch	[1] 43
Miling Branch	1
Certificates and Permits Branch	14
Total	72

[1] The Mechanical Tabulation Branch, Section of Reports, was abolished Aug. 17, 1962; the positions were transferred to the Tabulation Branch, Section of Traffic Statistics, and renamed the Data Processing Branch.

Bureau Of Water Carriers and Freight Forwarders

Mr. Jonas. That takes us to the Bureau of Water Carriers and Freight Forwarders.

Insert pages 197 and 198 in the record.

(The pages referred to follow:)

Bureau of Water Carriers and Freight Forwarders

The principal duties of the Bureau are briefly described as follows:

1. Administrative handling and preparation of formal reports and orders in application cases under section 5a of the act which governs collective ratemaking by carriers.

2. Administrative handling and preparation of reports and orders in exemption application cases filed by water carriers, and the processing of applications of such carriers for temporary authority.

3. Advises the Commission on matters affecting water carriers, freight forwarders, and rate bureaus.

4. Field investigations of water carriers, freight forwarders, and rate bureaus to assure compliance with the requirements of the act and the Commission's orders, rules, and regulations. Field investigations also are made of shipper's associations and agents which claim exemption under part IV of the act, but which may be engaged in activities not exempt from the provisions of the act.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	15	15	0
Personnel compensation	$133,962	$141,996	+$8,034
Personnel benefits	9,981	10,535	+554
Total personal services and benefits	143,943	152,531	+8,588
Travel	5,700	5,700	0
Total	149,643	158,231	+8,588

The increase of $8,588 for personal services and benefits is primarily for 2 extra compensable days in 1964 over 1963 and for pay increases authorized by Public Law 87–793.

The 1964 budget provides 15 positions for this Bureau, which is the same as authorized for the current fiscal year.

The 15 positions included in the 1964 budget are separated by categories as follows:

	Departmental	Field	Total
Director and assistant director	2		2
Field assistant	1		1
Adjudicator	3		3
District supervisor		4	4
Clerk and stenographer	3	2	5
Total	9	6	15

This Bureau has jurisdiction over 63 rate bureaus operating under approved section 5(a) agreements, 266 water carriers and 89 freight forwarders which hold operating authorities; also, the Bureau maintains current files covering 316 shippers' associations and agents claiming exemption under section 402(c) of the act. During the fiscal year 1962, a total of 307 routine and special investigations were made by the 4 district supervisors. Thus, less than one-half of the carriers and organizations within the Bureau's jurisdiction were contacted or investigated last year.

Applications and petitions.—In fiscal year 1962, 61 applications and petitions of water carriers, freight forwarders, and rate bureaus were filed and reopened, and 66 were decided. The workload of the Bureau in connection with application and petition matters during fiscal year 1962 was substantially the same as the previous year. Some increases in this work are expected during the fiscal years 1963 and 1964.

Mr. JONAS. This is a small Bureau, only 15 people. How can you get along with only 15 people to run an entire bureau?

Mr. WALRATH. I would like to make a preliminary statement on that. As you realize, our regulation of water traffic is estimated to be about 10 percent of that which moves. Much of it moves under the bulk exemption. We would like a larger bureau.

Mr. JONAS. All agricultural products?

Mr. WALRATH. It includes grain and grain products, coal, heavy-loading bulk commodities. This is one of the controversial questions right now about rate regulations.

Mr. JONAS. I heard something about that.

Mr. WALRATH. I am afraid we will hear more about it before it is over. That is one factor in it.

On the other hand, let me say that with this small staff that Bureau has been doing a fine job, but their responsibilities are much greater than we have been able to give them help for.

Mr. JONAS. What are they supposed to do? Do these four paragraphs on page 197 set it out completely?

Mr. WALRATH. Director Nowell can speak to that.

Mr. NOWELL. I think it describes it pretty well.

Mr. JONAS. Why do you combine the Bureau of Water Carriers with that of Freight Forwarders?

Mr. NOWELL. That is only half of the areas in which we function. There are two others—Mobilization and the rate bureaus.

Other Objects of Expense

Mr. Jonas. That brings us down to other objects. Insert page 202 in the record.

(The page referred to follows:)

Object classification

		1962	1963	1964 [1]	Increase, 1964 as compared with 1963
21	Travel and transportation of persons	$1,260,802	$1,310,620	$1,345,320	$34,700
22	Transportation of things	19,336	26,700	25,935	−765
23	Rent, communications, and utilities:				
	Rent	106,345	110,000	120,300	10,300
	Communications	140,415	140,400	144,800	4,400
	Official mail	73,700	81,807	91,150	9,343
24	Printing and reproduction	184,204	213,400	232,000	18,600
25	Other services	93,699	102,900	125,600	22,700
26	Supplies and materials	290,253	260,370	272,770	12,400
31	Equipment	220,829	202,030	264,730	62,700
42	Insurance claims and indemnities	370			
	Total	2,395,953	2,448,227	2,622,605	174,378

[1] Excludes reimbursement of $175,000 from Office of Emergency Planning for emergency preparedness functions.

TRAVEL

You are asking for $174,378 increase in 1964 for other objects, $34,700 of the increase being for travel. Why do you have to do so much more travel in 1964 than you did in 1963?

Mr. Schmid. That primarily relates to estimated increased hearings as well as increased investigations and inspections.

Mr. Jonas. That is involved in whether you get new people; is that correct?

Mr. Schmid. That is correct.

Mr. Jonas. You are providing for increased travel for the additional people that you are asking for?

Mr. Schmid. Some of that will be related to the new people.

ADDITIONAL OFFICE SPACE

Mr. Jonas. What is the item of $10,300 increase in rent? Is that for equipment?

Mr. Schmid. Office space in the field.

Mr. Jonas. For new offices?

Mr. Ryan. Yes, sir.

Mr. Jonas. Where do you plan to open them?

Mr. Ryan. Increased space in Fort Worth. We have put additional people there. We need additional space in Portland, Oreg. None of those are new offices but all additional space.

PRINTING AND REPRODUCTION

Mr. JONAS. Why do you expect such a substantial increase in your printing and reproduction item next year, $18,600. You spent $184,204 on that item in 1962, $213,400 in 1963, and you estimate it will cost you $232,000 in 1964. Why the increase?

Mr. RYAN. The large item is for additional reports of Commission's decisions to be printed.

Mr. JONAS. Do you suppose the Commission will render more decisions next year than it did this year?

Mr. RYAN. Yes, sir, more of the decisions will be printed.

Mr. JONAS. You don't print all the decisions of the Commission?

Mr. RYAN. Not all of them; no, sir. These are printed and put in bound volumes.

We have another item of $2,800 for republication of the Commission's motor carrier safety regulations.

EQUIPMENT

Mr. JONAS. What is this equipment you will buy, $62,700 increase? It amounts to almost $273,000 worth of equipment.

Mr. RYAN. Related to the new employees we have asked for, the 73 additional employees, plus upgrading and replacement of wornout equipment we now have.

Mr. JONAS. $180,050 for replacement of old and wornout equipment. What standard do you use? Do you have a yearly use standard?

Mr. SCHMID. It varies according to equipment.

Mr. RYAN. Varies according to the type of equipment and its use.

Mr. JONAS. Who inspects it to determine whether it is usable?

Mr. SCHMID. Guided primarily by GSA.

Mr. JONAS. They just give you a bulletin showing that a typewriter after it has been used 10 years is no longer any good. Do you just follow that or do you use your own judgment?

Mr. SCHMID. We don't follow it completely because we wouldn't dare come in and ask for as much money as we would need to replace what we have that already meets their criteria.

Mr. JONAS. This amount is a good chunk of money. You are not buying any electronic equipment.

Mr. SCHMID. We rent the electronic equipment.

Mr. JONAS. This is purely for replacement of old equipment?

AUTOMOBILE REPLACEMENT

Mr. SCHMID. We have an orderly replacement program.

For example, in automobiles we replace our cars every 6 years or 60,000 miles, whichever comes first.

Mr. THOMAS. It is just getting broken in. Mine has only 125,000 miles on it and it is 8 years old. You talk about 6 years and 60,000 miles.

How about that, Judge Goff?

Mr. GOFF. I am driving a 1951 car, but I don't have to give it the service that they do. They have to get out and go. I use mine to drive to get groceries once a week.

Mr. JONAS. That is an interesting question. How many new automobiles are you asking for?

Mr. RYAN. No new ones. We are asking for 62 automobiles to replace 62 automobiles.

Mr. SCHMID. We are not increasing the fleet. We want to replace 62 automobiles which have reached the 60,000-mile level or better.

Mr. JONAS. Do you use the 60,000 miles or 4-year criterion?

Mr. RYAN. Six years, not 4 years.

Mr. JONAS. Or 60,000 miles?

Mr. RYAN. That is right.

Mr. JONAS. That is the GSA standard?

Mr. SCHMID. That is right. Their studies disclose after 60,000 miles the cost of maintenance is more costly in the long run than replacing the car.

PRINTING

Mr. JONAS. Printing and reproduction is next. I thought we had that in other objects.

Mr. RYAN. Yes, sir.

Mr. JONAS. We have discussed that.

Insert page 206 in the record.

(The page referred to follows:)

PRINTING AND REPRODUCTION

Funds requested under this heading are to provide for all printing and reproduction needs of the Commission, including items purchased from and through the Government Printing Office, and such other items as may be lawfully purchased elsewhere.

The $232,000 requested under this heading for 1964 represents an increase of $18,000 over the estimated obligations of $213,400 for the current fiscal year.

The increase of $18,600 requested for the following purposes:

1. Printing of an increased number of Commission reports and orders in bound volume form	$33,000
2. Republication of the Commission's Motor Carrier Safety Regulations	2,800
3. Miscellaneous publications, forms, administrative orders, etc	3,800
Total increases	39,600
Less a decrease in printing of individual volume of annotations and revision of rules of practice	21,000
Net increase	18,600

Mr. JONAS. That completes the justifications.

Mr. THOMAS. Mr. Boland, have you any questions?

GUARANTEE OF LOANS TO RAILROADS

Mr. BOLAND. Under the Bureau of Finance I would like to get into the question of loans to railroads. I think page 54 touches on this. This is as a result of the 1958 act guaranteeing loans to railroads. This is an activity of ICC.

I note in your narrative you indicate that the President has recommended this be transferred. It expires June of this year?

Mr. WALRATH. That is right.

Mr. BOLAND. The President has recommended that it be transferred, if it is extended, to the Department of Commerce. Why the transfer? Is there any reason for it?

Mr. WALRATH. I think it is that the President's recommendation treats that and the Civil Aeornautics Board loan guarantee authority as being of the promotional type as contrasted with regulatory functions of the two agencies. I believe that is the underlying philosophy.

Mr. BOLAND. Insert that section on loans and financial analysis starting at page 56 and including the first four paragraphs on page 57.

(The pages referred to follow:)

SECTION OF LOANS AND FINANCIAL ANALYSIS

This Section was first established as the "Section of Loans" following enactment of part V of the act, August 12, 1958, to handle the staff work connected with applications for the guarantee by the Commission of loans to railroads.

During the 1960 fiscal year, additional functions were added to this Section and the name changed to that shown above. All financial analysis work incident to proceedings handled by the Bureau of Finance is concentrated in this Section.

During fiscal year 1962, 5 loan-guaranty applications and 4 related section 20a applications were received requesting loan guaranties of approximately $23.9 million as compared with 12 and 12 applications, respectively, involving $87 million received during fiscal year 1961.

The present authorization of the Commission to guarantee loans will expire June 30, 1963. Also, the President has recommended that this function be transferred to the Department of Commerce. If the authorization is extended beyond June 30, 1963, it is anticipated that the work will continue at about the same level as in 1962. In addition to the processing of new applications, a substantial amount of work is entailed in policing and servicing outstanding loans.

On pages 64 through 71 there are statements showing the loan guaranty applications received and disposed of from the inception of the program in August 1958 to December 31, 1962, as well as applications pending on December 31, 1962.

Pages 64 to 67 show the applications filed in chronological order, the purpose of the loans, rate of interest, and the action by the Commission. Pages 68 to 69 show practically the same information for the individual railroads. Pages 70 to 71 show repayments and the unpaid balance as of December 31, 1962.

The handling of sections 5 and 214 motor finance and section 20a rail security applications have been expedited because of preliminary review by employees of this section. Analyses of motor finance cases have been limited to the larger, the more involved, or the nationally important cases; and verifications of the draft reports and orders have been restricted to the salient financial and accounting features thereof. There does not appear to be any phase of the work on motor finance cases that could be further restricted without affecting the quality of the Commission's reports and orders in such cases, which comprise the largest single segment of the Bureau's workload.

Up to the present time this section has been unable to make any sizeable contribution towards the processing of rail merger and other rail unification cases, train discontinuance matters, and rail abandonment applications. Consequently, only those reports and orders in cases which involve highly technical, novel or complicated accounting and financial matters are sent to this section for verification.

Mr. BOLAND. The tables are excellent on the applications and authorizations and repayments. They have not been very much.

Put in the table starting with page 64 and running through page 71.

(The information referred to follows:)

Chronological statement showing loan guaranty applications received and actions thereon

Finance Docket No.	Date filed	Railroad	Amount of guaranty originally sought	Amended or withdrawn	Approved				Date loan closed	Denied	Related sec. 20a Finance Docket No.
					Date	Amount	Rate of interest	Purpose of loan			
	1958										
20372	Oct. 10	New Haven	$16,542,460	[1] $8,383,060	Aug. 5, 1960	[2] $8,159,400	5.5	(a)	Sept. 29, 1960		21010
20395	Oct. 29	NY, S & W	450,000	[2] 450,000				(b)			
20397	Oct. 31	New Haven	500,000		Jan. 8, 1960	500,000	5.5	(c)	Jan. 15, 1960		
20398	Oct. 31	New Haven	1,500,000		Oct. 28, 1959	[4] 1,500,000	5.0	(d)	Oct. 29, 1959		20399
20429	Dec. 1	B&M	10,500,000	[3] 4,500,000	June 22, 1959	3,000,000	5.0	(b)	June 25, 1959	[5] $3,000,000	20629
	1959										
20517	Jan. 28	Ga. & Fla	1,000,000	[6] 65,040	May 8, 1959	934,960	5.0	(e)	June 30, 1959		
20518	Jan. 28	Ga. & Fla	1,000,000		Oct. 5, 1959	1,000,000	5.5	(f)	Dec. 23, 1959		20536
20689	June 29	N.Y.C	40,000,000		Sept. 16, 1959	[7] 40,000,000	5.0	(b)	Oct. 15, 1959		20690
20691	June 30	Atl. & D	800,000					(g)		[8] 800,000	20692
20760	Aug. 10	L. Valley	6,000,000	77,000	Nov. 27, 1959	5,923,000	5.0059	(h)	Nov. 30, 1959		20822
20840	Sept. 21	NY. S & W	300,000		Apr. 29, 1960	[9] 300,000	5.5	(b)	May 3, 1960		20891
20841	Sept. 21	NY. S & W	200,000					(i)		[10] 200,000	20891
	1960										
21121	May 18	Nor. Sou	2,000,000		Sept. 21, 1960	[11] 2,000,000	5.25	(b)	Oct. 4, 1960		21120
21210	July 21	C & E I	3,000,000		Sept. 23, 1960	3,000,000	5.25	(b)	Oct. 14, 1960		21121
21299	Sept. 29	New Haven	15,500,000	(12)	Oct. 31, 1960	13,000,000	5.0	(b)	Nov. 3, 1960[12]	2,500,000	21489
21300	Sept. 29	L. Valley	5,000,000		Dec. 7, 1960	5,000,000	5.0	(b)	Dec. 15, 1960		21342
21365	Nov. 17	B&M	3,000,000		Jan. 17, 1961	3,000,000	5.0	(b)	Jan. 31, 1961		21397
	1961										
21454	Jan. 31	M–K–T	16,000,000		May 22, 1961	16,000,000	5.0	(b)	May 31, 1961		21455
21494	Feb. 28	Erie-Lack	15,000,000		June 8, 1961	15,000,000	5.25	(b)	June 15, 1961[13]		21495
21539	Mar. 22	L. Valley	2,500,000		Apr. 28, 1961	2,500,000	4.75	(b)	May 17, 1961		21540
21547	Mar. 30	P. & W. Va	1,500,000		June 26, 1961	1,500,000	4.75	(b)	June 30, 1961		21548
21551	Mar. 30	Monon	5,000,000		July 26, 1961	5,000,000	4.75	(j)	Aug. 4, 1961		21616
21552	Mar. 30	M–K–T	6,000,000		June 26, 1961	6,000,000	{ 5.0 / 4.75 }	(b)	June 29, 1961		21553
21555	Mar. 31	C. RR. of NJ	15,000,000		Aug. 26, 1961	15,000,000	5.0	(k)	Oct. 31, 1961		21586
21615	May 31	B. & M	1,000,000		Aug. 15, 1961[14]	1,000,000	4⅞	(b)	Aug. 29, 1961		21641
21685	July 21	N.H. Trustees	5,000,000		Aug. 2, 1961	5,000,000	5.0	(b)	Aug. 4, 1961		21686
21776	Oct. 2	L. Valley	5,000,000		Nov. 28, 1961	5,000,000	{ 4.5 / 5.0 }	(b)	Nov. 30, 1961		21777
21794	Oct. 17	N.Y. S. & W	555,000		Mar. 1, 1962	555,000	5.5	(l)	Oct. 4, 1962		
21808	Oct. 30	N.H. Trustees	[15] 7,500,000		Dec. 7, 1961	7,500,000	4.75	(b)	Dec. 13, 1961		21809
21888	Dec. 21	B. & M	[16] 5,845,348	5,845,348				(m)			21923
	1962										
22231	Aug. 20	B. & M	1,000,000		Oct. 3, 1962	1,000,000	5.0	(b)	Oct. 17, 1962		22247
22339	Nov. 8	L. Valley	[17] 5,000,000				4¾	(b)			22340
22361	Nov. 29	C. & E.I	[17] 12,000,000				5.0	(m)			22360
Grand total			211,192,808	19,320,448		168,372,360				6,500,000	

[a] Acquisition of 30 new diesel-electric locomotives.
[b] Reimbursement of treasury (for capital expenditures after Jan. 1, 1957).
[c] Acquisition of maintenance of way equipment and machinery.
[d] Construction of certain shop facilities.
[e] Acquisition of 100 new freight cars.
[f] Maintenance and rehabilitation of roadway.
[g] Reimbursement of treasury $181,000; refinancing of balance on 100 freight cars $100,000; acquisition of 100 used freight cars $240,000; and expenditures for future maintenance $279,000.
[h] Refinance equipment obligations $1,167,127; finance planned capital expenditures $1,584,609; and reimburse treasury $3,181,264.
[i] Expenditures for future maintenance.
[j] Reimbursement of treasury $1,000,000; future capital expansion $4,000,000.
[k] Acquisition of not less than 634 covered hopper cars and 725 box cars at a cost in excess of $5,000,000; and reimbursement of treasury in part for capital expenditures of $10,000,000.
[l] Financing acquisition of 3 locomotives (conditional sale agreement).
[m] Refinancing certain equipment obligations incurred after Jan. 1, 1957.
[1] Application amended to withdraw proposed guarantee of financing of 30 locomotives already delivered, and to adjust the amount of proposed financing of 30 new locomotives (not yet built) from $8,152,930 to $8,159,400.
[2] Upon request of applicant, tentative affirmative findings were issued, subject to conditions on Mar. 25, 1959. Supplemental report and order issued Sept. 14, 1959, deferred final action pending receipt of supplemental data. Supplemental data received Mar. 30, 1960. Supplemental order of June 9, 1960, approved application on condition rate of interest not exceed 5 percent. Supplemental order of Aug. 5, 1960, modified order of June 9, 1960, and approved 5½ percent interest rate. Loan closed Sept. 29, 1960.
[3] Withdrawn at request of application. Applicant dismissed Jan. 29, 1959.
[4] Upon request of applicant, tentative affirmative findings were issued, subject to conditions, on Mar. 25, 1959. Application approved in supplemental report and order of Sept. 14, 1959. Supplemental orders were issued Sept. 30, 1959, and Oct. 28, 1959. Loan closed Oct. 29, 1959, and $750,000 advanced on that date; balance advanced on July 7, 1960.
[5] By amendment the amount of guarantee sought was reduced to $6,000,000. By report and order of May 18, 1959, and supplemental report and order of June 22, 1959, a loan guarantee in amount of $3,000,000 was approved subject to conditions. Loan closed on June 25, 1959.
[6] By amendment the amount of guarantee sought was reduced to $934,960 (actual cost of cars). and in report issued on May 8, 1959, guarantee of that amount was approved. Loan closed June 30, 1959.
[7] Approved Sept. 16, 1959. Loan closed Oct. 15, 1959, and $19,500,000 advanced; $17,000,000 advanced July 1, 1960; balance advanced July 6, 1961.
[8] Denied Jan. 6, 1960.
[9] Approved Dec. 23, 1959. Supplemental order entered Apr. 20, 1960. Loan closed May 3, 1960.
[10] Denied Dec. 23, 1959.
[11] Approved July 26, 1960, subject to condition that security be furnished. Amendment offering second mortgage filed Aug. 29, 1960, and supplemented Sept. 16, 1960. Supplemental approval order Sept. 21, 1960. Loan closed Oct. 4, 1960. Second supplemental order Dec. 13, 1960.
[12] Order of Oct. 31, 1960, approved $4,500,000 and deferred action on $1,500,000; and the $4,500,000 loan was closed Nov. 3, 1960. Amendment filed Dec. 22, 1960, sought an additional $4,500,000. Second supplemental order of Dec. 29, 1960, approved an additional loan of $3,500,000 closed (Jan. 3, 1961) and denied application in all other respects. Amendment filed Feb. 8, 1961, sought $5,000,000 additional. By third supplemental order of Feb. 14, 1961, approved additional $3,500,000. Remaining $1,500,000 approved by fourth supplemental order of May 12, 1961. Last 2 loans closed Feb. 17, 1961, and May 17, 1961, respectively.
[13] At first closing on June 15, 1961, $6,200,000 of loan was advanced. Second advance of $2,500,000 was made Nov. 30, 1961. Balance advanced on Jan. 3, 1962.
[14] Denied July 19, 1961. On reconsideration, on Commission's own motion, approved Aug. 15, 1961. Loan closed Aug. 29, 1961.
[15] As approved, the loan proceeds would be disbursed by lenders upon request of trustees before June 1, 1962. On closing date, Dec. 13, 1961, $3,000,000 was disbursed. At request of trustees commitment date of June 1, 1962, was extended to Dec. 31, 1962, as to the $4,500,000 balance of the proceeds and that extension was approved by the Commission in supplemental order of May 18, 1962. Upon request of trustees commitment date was further extended to June 1, 1963, and approved by the Commission in its second supplemental order of Nov. 26, 1962.
[16] Withdrawn at request of applicant. Application dismissed July 27, 1962.
[17] Pending as of Dec. 31, 1962.

Recapitulation by railroads of loan guarantee applications received, and actions thereon, as of Dec. 31, 1962

Finance docket no.	Railroad	Amount applied for			Action			Pending
		Original amount	Amended or withdrawn [1]	Net amount	Date	Amount approved	Amount denied	
20691	Atlanta & Danville	$800,000		$800,000	Jan. 6, 1960		$800,000	
20429	Boston and Maine	10,500,000	$4,500,000	6,000,000	June 22, 1959	$3,000,000	3,000,000	
21365	do	3,000,000		3,000,000	Jan. 17, 1961	3,000,000		
21615	do	1,000,000		1,000,000	Aug. 15, 1961	1,000,000		
21888	do	5,845,348	[1] 5,845,348		[1] July 27, 1962			
22231	do	1,000,000		1,000,000	Oct. 3, 1962	1,000,000		
	Total	21,345,348	10,345,348	11,000,000		8,000,000	3,000,000	
21555	Central of New Jersey	15,000,000		15,000,000	Aug. 26, 1961	15,000,000		
21210	Chicago and Eastern Illinois	3,000,000		3,000,000	Sept. 23, 1960	3,000,000		
22361	do	12,000,000		12,000,000				$12,000,000
	Total	15,000,000		15,000,000		3,000,000		12,000,000
21494	Erie-Lackawanna	15,000,000		15,000,000	June 8, 1961	15,000,000		
20517	Georgia and Florida	1,000,000	65,040	934,960	May 8, 1959	934,960		
20518	do	1,000,000		1,000,000	Oct. 5, 1959	1,000,000		
	Total	2,000,000	65,040	1,934,960		1,934,960		
20760	Lehigh Valley	6,000,000	77,000	5,923,000	Nov. 27, 1959	5,923,000		
21300	do	5,000,000		5,000,000	Dec. 7, 1960	5,000,000		
21539	do	2,500,000		2,500,000	Apr. 28, 1961	2,500,000		
21776	do	5,000,000		5,000,000	Nov. 28, 1961	5,000,000		
22339	do	5,000,000		5,000,000				5,000,000
	Total	23,500,000	77,000	23,423,000		18,423,000		5,000,000
21454	Missouri-Kansas-Texas	16,000,000		16,000,000	May 22, 1961	16,000,000		
21552	do	6,000,000		6,000,000	June 26, 1961	6,000,000		
	Total	22,000,000		22,000,000		22,000,000		
21551	Monon	5,000,000		5,000,000	July 26, 1961	5,000,000		
20372	New Haven	16,542,460	8,383,060	8,159,400	Aug. 5, 1960	8,159,400		
20397	do	500,000		500,000	Jan. 8, 1960	500,000		

20398	do	1,500,000		1,500,000	Oct. 28, 1959	1,500,000		
21299	do	6,000,000		6,000,000	Oct. 31, 1960	4,500,000	1,500,000	
21299	do	4,500,000		4,500,000	Dec. 29, 1960	3,500,000	1,000,000	
21299	do	3,500,000		3,500,000	Feb. 14, 1961	3,500,000		
21299	do	1,500,000		1,500,000	May 12, 1961	1,500,000		
	(Subtotal Financial Docket No. 21299)	15,500,000		15,500,000		13,000,000	2,500,000	
	Subtotal New Haven Railroad	34,042,460	8,383,060	25,659,400		23,159,400	2,500,000	
21685	New Haven trustees	5,000,000		5,000,000	Aug. 2, 1961	5,000,000		
21808	do	7,500,000		7,500,000	Dec. 7, 1961	7,500,000		
	(Subtotal New Haven trustees)	12,500,000		12,500,000		12,500,000		
	Total New Haven and trustees	46,542,460	8,383,060	38,159,400		35,659,400	2,500,000	
20689	New York Central	40,000,000		40,000,000	Sept. 16, 1959	40,000,000		
20395	New York, Susquehanna and Western	450,000	[1] 450,000		Jan. 29, 1959[1]			
20840	do	300,000		300,000	Apr. 20, 1960	300,000		
20841	do	200,000		200,000	Dec. 23, 1959		200,000	
21794	do	555,000		555,000	Mar. 1, 1962	555,000		
	Total	1,505,000	450,000	1,055,000		855,000	200,000	
21121	Norfolk Southern	2,000,000		2,000,000	Sept. 21, 1960	2,000,000		
21547	Pittsburgh and West Virginia	1,500,000		1,500,000	June 26, 1961	1,500,000		
	Grand total	211,192,808	19,320,448	191,872,360		168,372,360	6,500,000	17,000,000

[1] New York, Susquehanna & Western application, Finance Docket No. 20395 for $450,000 was withdrawn at request of applicant and dismissed by order of Jan. 29, 1959. B. & M. application, Finance Docket No. 21888 for $5,845,348, was withdrawn at request of applicant and dismissed by order of July 27, 1962.

Loan guarantee applications—Statement showing actions to Dec. 31, 1962, and repayments on approved applications

Finance docket No.	Railroad	Applications approved				
		Date	Amount approved	Approved but not disbursed	Repayments	Unpaid balance, Dec. 31, 1962
20691	Atlantic & Danville	Jan. 6, 1960	(1)			
20429	Boston & Maine	June 22, 1959	$3,000,000		$700,000	$2,300,000
21365	do	Jan. 17, 1961	3,000,000			3,000,000
21615	do	Aug. 15, 1961	1,000,000		125,000	875,000
21888	do	July 27, 1962	(2)			
22231	do	Oct. 3, 1962	1,000,000			1,000,000
	Total		8,000,000		825,000	7,175,000
21555	Central of New Jersey	Aug. 26, 1961	15,000,000			15,000,000
21210	Chicago & Eastern Illinois	Sept. 23, 1960	3,000,000			3,000,000
21494	Erie-Lackawanna	June 8, 1961	15,000,000			15,000,000
20517	Georgia & Florida	May 8, 1959	934,960		233,740	701,220
20518	do	Oct. 5, 1959	1,000,000	$100,000	100,000	800,000
	Total		1,934,960	100,000	333,740	1,501,220
20760	Lehigh Valley	Nov. 27, 1959	5,923,000		1,123,000	4,800,000
21300	do	Dec. 7, 1960	5,000,000		671,000	4,329,000
21539	do	Apr. 28, 1961	2,500,000			2,500,000
21776	do	Nov. 28, 1961	5,000,000		334,000	4,666,000
	Total		18,423,000		2,128,000	16,295,000
21454	Missouri-Kansas-Texas	May 22, 1961	16,000,000		320,000	15,680,000
21552	do	June 26, 1961	6,000,000		120,000	5,880,000
	Total		22,000,000		440,000	21,560,000
21551	Monon	July 26, 1961	5,000,000		100,000	4,900,000
20372	New Haven	Aug. 5, 1960	8,159,400		1,087,920	7,071,480
20397	do	Jan. 8, 1960	500,000		275,000	225,000
20398	do	Oct. 28, 1959	1,500,000		125,000	1,375,000
21299	do	Oct. 31, 1960	4,500,000			4,500,000
21299	do	Dec. 29, 1960	3,500,000			3,500,000
21299	do	Feb. 14, 1961	3,500,000			3,500,000

21299	....do	May 12, 1961	1,500,000			1,500,000
	(Subtotal, Finance Docket No. 21299)		13,000,000			13,000,000
	Subtotal New Haven RR		23,159,400		1,487,920	21,671,480
21685	New Haven trustees	Aug. 2, 1961	5,000,000			5,000,000
21808	....do	Dec. 7, 1961	7,500,000	4,500,000		3,000,000
	(Subtotal, New Haven trustees)		12,500,000	4,500,000		8,000,000
	Total New Haven and trustees		35,659,400	4,500,000	1,487,920	29,671,480
20689	New York Central	Sept. 16, 1959	40,000,000			40,000,000
20395	New York, Susquehanna and Western	Jan. 29, 1959	(2)			
20840	....do	Apr. 20, 1960	300,000		42,900	257,100
20841	....do	Dec. 23, 1959	(1)			
21794	....do	Mar. 1, 1962	555,000		13,875	541,125
	Total		855,000		56,775	798,225
21121	Norfolk-Southern	Sept. 21, 1960	2,000,000			2,000,000
21547	Pittsburgh and West Virginia	June 26, 1961	1,500,000		100,000	1,400,000
	Grand totals		168,372,360	4,600,000	5,471,435	158,300,925

[1] Denied.

[2] Withdrawn.

Mr. BOLAND. Questions on this?

BUREAU OF TRAFFIC

Mr. THOMAS. Did we cover all the Bureaus here? What about the Bureau of Traffic? Was this touched on?

Mr. WALRATH. I believe not, Mr. Chairman.

Mr. THOMAS. Let us insert page 168 at this point.

(Page 168 referred to follows:)

BUREAU OF TRAFFIC

The program and performance of this Bureau are under two activities: Activity No. 1, "Regulation of carriers' rates, practices, operating authorities, and finance," which includes the Board of Suspension and the Fourth Section Board; and activity No. 4, "Supervision and interpretation of tariffs," which includes the Director's Office and Sections of Rates and Informal Cases and Tariffs.

This Bureau receives and processes all freight rate and passenger fare tariffs and schedules of compensation which the carriers are required to file under the Interstate Commerce Act. These tariffs and schedules are prepared by carriers and their agents and must conform with the rules and regulations prescribed by the Commission governing the construction and filing of tariffs. The Bureau also receives and processes: (1) All applications filed by the carriers for relief from the provisions of sections 6, 216, 306, and 405 of the act relative to notice and the form and content of tariffs; (2) applications filed by rail and water carriers for relief from the provisions of section 4; (3) requests by shippers, carriers, and others for the suspension and investigation, under sections 15, 216, 218, 307, and 406, of proposed rates and other charges published in tariffs or schedules filed but not yet effective; and (4) informal complaints and special docket applications.

Comparison of 1964 budget with 1963 appropriation

	1963	1964	Change
Positions	255	259	+4
Personnel compensation	$1,827,247	$1,957,659	+$130,412
Personnel benefits	134,420	143,491	+9,071
Total personal services and benefits	1,961,667	2,101,150	+139,483
Travel	1,000	1,000	0
Total	1,962,667	2,102,150	+139,483

The increase of $139,483 is requested primarily for the four additional positions, 2 extra compensable days in 1964 over 1963, and for pay increases authorized by Public Law 87-793.

Four additional GS-10 report writers are requested for the Board of Suspension to provide an adequate staff to develop complete and factual records upon which the Board may base its decisions.

Mr. THOMAS. You have 255 employees and want 259. This is one of the big bureaus.

This Bureau regulates carriers' rates, practices, operating authorities, everything in the book.

This is all covered on page 168. This Bureau receives and processes all freight rates, passenger fare rates, schedules, and so forth. The Bureau also receives and processes all applications filed by the carriers for relief from the provisions of sections 6, 216, 306, and 405 of the act relative to notice and the form and content of tariffs.

You have a lot to do here.

Mr. WALRATH. That request is principally directed to much needed help to our Board of Supension which deals with these matters in short order.

Mr. THOMAS. Can we combine this Bureau with any other bureau?

Mr. WALRATH. No one else would want it, I think.

Mr. THOMAS. Who has this Bureau?

Mr. WALRATH. Director Cox is right here, sir.

Mr. THOMAS. You couldn't wish this on anybody else?

Mr. COX. I am afraid not, Mr. Chairman.

Mr. THOMAS. What is the urgency of your work under your jurisdiction? This is one of the important bureaus.

BOARD OF SUSPENSION

Mr. COX. The main emergency here is four additional employees in the Board of Suspension.

Mr. THOMAS. How does the Board suspension work?

Mr. COX. They receive protests from shippers, carriers, and other people protesting against proposed changes in rates, fares, and charges, and seeking suspension of changes by the Commission pending an investigation and determination——

Mr. THOMAS. Suspension has heretofore gone into effect?

Mr. COX. Before they go into effect.

Mr. THOMAS. Go ahead. What is the time limit?

Mr. COX. The effective date of each schedule filed by the carriers which under the law is required to give not less than 30 days' notice.

Mr. THOMAS. You are in a hot spot.

Mr. COX. Under the Commission's rules protests must be filed not less than 12 days before the effective date of the schedule.

Upon the filing of a protest, the Board——

Mr. THOMAS. The filer is in a hurry and you are in pretty much of a hurry because you have no more than 10 or 12 days as a matter of everyday practice to act on it after you get it.

Mr. COX. That is right, and when a schedule is effective on a Monday particularly there are two Saturdays and two Sundays within that 12-day period.

Upon filing of the protest we have to notify the respondent carrier and give the carrier an opportunity to reply to the protest, to justify what it proposes, analyze the protest, and then the Board of Suspension acts on it and must act at least 2 workdays before the effective date in order to afford an opportunity for appeal to the Appellate Division.

Mr. THOMAS. Let's look at your workload on page 173.

Mr. WALRATH. That is the hot spot.

Mr. THOMAS. It sets it out for 5 years. Protests disposed of are shown. There are a lot of telegrams.

Mr. WALRATH. Because of the shortage of time, especially in appeals.

Mr. THOMAS. You mean you disposed of each of these?

Mr. COX. That is right.

Mr. THOMAS. Every one filed has to be disposed of. What is the average working period in that, 10 to 14 days after you get it?

Mr. COX. A lot less than that. I would say it is about 8 days on the average.

Mr. THOMAS. How serious is it? What is the nature of one of these? A man files and says he wants you to hold putting this in the rate. He is going to ship a carload of alfalfa from X county to C county and the rates are too high.

Most of them are that simple?

Mr. GOFF. No, but let Mr. Cox speak to that.

Mr. THOMAS. Tell us, Judge.

Mr. GOFF. I have something to add to that.

Mr. THOMAS. Go ahead, then, Director.

Mr. COX. Unless the Commission suspends the schedule it will automatically become effective. If it is unlawful, the unlawful rates become effective and the shipper is required to pay them.

Mr. THOMAS. How much time does it take? You cannot tell how much money is involved. It could be a sackful of money. It could be very important. How much time do you have? How many cases can one man dispose of?

Mr. COX. We have a good explanation in there on page 171. It is difficult to make an absolute statement because of the types of cases.

Mr. THOMAS. You mean based on recent studies approximately 60 percent of the protested adjustments are of lesser complexity and 40 percent greater complexity?

Mr. COX. That is right.

Mr. THOMAS. You are pretty definite there, Judge.

Therefore, in order to perform a reasonably adequate job, the report writer must spend the time indicated below in processing the protested adjustment and preparing the report.

You break it down between lesser and greater complexity.

You show an average of 9 hours in the lesser complexity, and in the greater complexity there is an average of 13 hours and then 25 hours.

Mr. COX. That is right.

Mr. THOMAS. What is the nature of one of the lesser suspensions?

Mr. COX. Well, with the alteration of a single rate on a single commodity to one destination to meet some sort of competition, and the competing carrier protested it on the ground it is unreasonably low, or unlawful in some other respect.

Mr. THOMAS. That is the basis of the protest, unreasonably low?

Mr. COX. That is right.

Mr. THOMAS. Most of the complaints come from competing carriers?

Mr. COX. That is right. Most of the work is based on competition.

Mr. THOMAS. How do you arrive at the time schedule? What does he do to combat that unreasonable charge?

Mr. COX. He ought to give us some figures indicating the costs in handling traffic.

Mr. THOMAS. Your people spend an average of 9 hours on these. What does he do in that 9 hours? He has to get statistical information, cost accounting data, and so on. You don't have that all in your Bureau.

Mr. Cox. That is right. When the contention is that the rates are unreasonably low, our Board of Suspension goes to the section of cost finding to find out what the cost is.

In the meantime a report writer will check the tariffs involved to determine what the rate situation is, analyze the contentions, and verify to the extent he can the contentions of the protestants.

When a reply comes in he will analyze the justification offered by the respondent carrier or carriers, including any rate information or cases which might be cited there in justification of the proposal, and on the basis of all that information, after analysis, he makes a determination as to whether the rates appear to be unlawful in any respect.

He makes a recommendation as to whether it should or should not be suspended.

AUTOMATION

Mr. THOMAS. What are they doing with reference to automation of your Bureau? It seems your Bureau could be automated.

They say a rate increase is unreasonable. You have a starting point. It seems it would be susceptible to automation.

Mr. Cox. Whether or not a rate is unreasonable is a matter of judgment. Our Bureau is one of those included in this study.

Mr. THOMAS. You have a starting point. If it is unreasonable you would have been working with it just the same. From that point he is going either up or down in his request. It is immaterial whether or not it is unreasonable. What you are concerned with now is the variation from that point.

Mr. Cox. We are concerned at this point as to whether or not the rate which has been proposed and filed by the carrier appears to be unreasonable or otherwise unlawful. If it does then the rate is suspended and sent to a formal hearing where the record is fully developed.

Mr. THOMAS. Where is your starting point in discovering whether it is unreasonable? You first look into the present rate?

Mr. Cox. That is right.

Mr. THOMAS. There is the starting point. It seems to me smart technicians could figure it out. There is your starting point. You operate from there.

Mr. GOFF. What do you do from there?

Mr. Cox. Use our judgment on the basis of the cost information we have.

Mr. THOMAS. You have to look it up and see what the rate is. It seems you can save a lot of paper shuffling right there.

Then as you well point out it is a matter of judgment whether the increase is too much or too little.

Mr. WALRATH. There is an area of automation that you touched upon which we hope to use, and that is in the costing itself. When you go to the costing people——

Mr. THOMAS. When will it be beyond the hope stage?

Mr. WALRATH. We are using it now.

In Mr. Cox's position——

Mr. THOMAS. It is doing Mr. Cox no good.

Mr. WALRATH. Yes, sir; it will get it for him in a few seconds rather than in many man-hours.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

BOARD OF SUSPENSION WORKLOAD

Mr. THOMAS. Let us insert page 173 and the workload on page 175. (The pages referred to follow:)

BOARD OF SUSPENSION WORKLOAD

Statistics for the principal classes of work appear below:

	Actual			Estimate	
	1960	1961	1962	1963	1964
Disposed of:					
Protested adjustments	4,252	4,855	5,170	5,200	5,200
Petitions to vacate	134	136	197	175	175
Special permission applications	418	465	510	475	475
Petitions to investigate, discontinue, etc	(1)	90	89	90	90
Appeals of no suspend	580	521	610	590	590
Letters and telegrams:					
Received	7,030	6,617	8,059	8,000	8,000
Sent	5,216	6,047	6,754	6,500	6,500

[1] No records available.

FOURTH SECTION BOARD WORKLOAD

The following statement shows the actual workload for the fiscal years 1960, 1961, and 1962 and estimates for 1963 and 1964:

	Actual			Estimate	
	1960	1961	1962	1963	1964
Work on hand beginning of year:					
Applications	115	113	99	88	88
Petitions	6	13	2	1	1
Total	121	126	101	89	89
Work received during year:					
Applications	844	889	[1] 591	750	750
Petitions	119	77	55	50	50
Total	963	966	646	800	800
Disposed of during year:					
Applications	846	903	602	750	750
Petitions	112	88	56	50	50
Total	958	991	658	800	800
On hand at end of year:					
Applications	113	99	88	88	88
Petitions	13	2	1	1	1
Total	126	101	89	89	89
Letters and telegrams:					
Received	957	887	681	681	681
Sent	1,770	1,857	1,229	1,229	1,229

[1] Includes 7 applications which were reopened for further consideration.

Mr. THOMAS. Questions, gentlemen?

NEW YORK, NEW HAVEN & HARTFORD RAILROAD

Mr. JONAS. I have a question on another subject, one raised by Mr. Boland.

We had quite a discussion last year regarding the New Haven Railroad. I don't think the hearing should be closed without putting on the record what improvement occurred in that situation in the past year, if any.

Mr. WALRATH. I believe Director Baker would have more current information on that than I would.

Mr. BAKER. I do not have figures before me. I do know that during the past year the trustees have shown considerable improvement. In other words, they still have a sizable deficit, but the deficit is not as great as it was the year before.

Mr. BOLAND. Will you supply for the record the size of the deficit?

Mr. BAKER. We can do that.

(The information supplied follows:)

New York, New Haven & Hartford Railroad Co.

Calendar year:	*Deficit*
1960	$14,698,640
1961	19,549,689
1962	[1] 12,159,493

[1] 11 months ended Nov. 30, 1962. For comparative purposes the 11-month deficit in 1961 totaled $18,640,564.

Mr. BOLAND. I recall talking to the trustees and they are about to wipe out the deficit. This is not true, is it?

Mr. BAKER. No. It almost reached the point of wiping out the cash attrition but that is because they are not paying some of the obligations. They are not paying taxes and the like.

Mr. THOMAS. Are they behind with the payment on the loan?

Mr. BAKER. As you know, two of the loans were in default and the Government paid those, but the trustees assumed the obligation on two other loans and they have been meeting those payments currently.

Mr. THOMAS. What became of the two the Government picked up? This is a guaranteed loan. What became of that?

Mr. BAKER. Nothing happened yet.

Mr. THOMAS. Still delinquent?

Mr. BAKER. They are still in reorganization. That will have to be taken care of when the railroad is reorganized.

Mr. THOMAS. Further questions?

Mr. JONAS. I noticed the other day that the Boston & Maine Railroad is improving its commuter service.

Mr. WALRATH. We have had rather glowing reports, not official but from observations of those who have seen it, and they claim with that local subsidy aid they have improved the condition of their cars and their service and the percentage of passenger traffic on that is rising.

Mr. JONAS. It has shown a phenomenal rise, has it not?

Mr. WALRATH. That is right.

Mr. BOLAND. It has. I thought one of the best remarks I have seen was in a television program one night.

Off the record.

(Discussion held off the record.)

Mr. BOLAND. Were there any other lines in default outside of New Haven?

Mr. WALRATH. That is all.

Mr. BOLAND. They borrowed $168,372,000. The unpaid balance is $158,350,000. These are loans under the 1958 act.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. THOMAS. Gentlemen, we thank you for your courtesy and your help. It is always pleasant to be with you.

You are all experts in your field and you render the public a very distinguished service. We are proud of all of you.

Mr. WALRATH. Thank you, Mr. Chairman. We have been very pleased to appear before you.

THURSDAY, JANUARY 31, 1963.

SECURITIES AND EXCHANGE COMMISSION

WITNESSES

WILLIAM L. CARY, CHAIRMAN
MANUEL F. COHEN, COMMISSIONER
JACK WHITNEY II, COMMISSIONER
PHILIP A. LOOMIS, JR., DIRECTOR, DIVISION OF TRADING AND EXCHANGES
ALLAN F. CONWILL, DIRECTOR, DIVISION OF CORPORATE REGULATIONS
EDMUND H. WORTHY, DIRECTOR, DIVISION OF CORPORATION FINANCE
MILTON H. COHEN, DIRECTOR, SPECIAL STUDY OF SECURITIES MARKETS
ARTHUR FLEISCHER, JR., EXECUTIVE ASSISTANT TO THE CHAIRMAN
WILLIAM GREEN, REGIONAL ADMINISTRATOR, ATLANTA OFFICE
DONALD J. STOCKING, REGIONAL ADMINISTRATOR, DENVER OFFICE
FRANK J. DONATY, COMPTROLLER

SALARIES AND EXPENSES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	9,019	11,089	11,913
	Positions other than permanent	77	65	65
	Other personnel compensation	104	65	155
	Total personnel compensation	9,200	11,219	12,133
12	Personnel benefits	624	771	839
21	Travel and transportation of persons	433	525	602
22	Transportation of things	8	12	12
23	Rent, communications, and utilities	278	308	382
24	Printing and reproduction	45	69	51
25	Other services	308	130	205
26	Supplies and materials	138	120	126
31	Equipment	162	62	50
	Total costs	11,196	13,216	14,400
	Changes in selected resources	58		
	Total obligations	11,254	13,216	14,400

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	1,323	1,481	1,535
Full-time equivalent of other positions	11	13	13
Average number of all employees	1,180	1,405	1,450
Number of employees at end of year	1,336	1,538	1,605
Average GS grade	8.8	9.0	9.0
Average GS salary	$7,524	$8,012	$8,131

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Full disclosure provisions	3,030	3,427	3,583
2. Prevention and suppression of fraud	4,181	5,140	5,881
3. Supervision and regulation of securities markets	301	331	431
4. Regulation of investment and public utility holding companies	739	910	1,293
5. Corporate reorganizations	352	379	432
6. Operational and business statistics	278	309	347
7. Executive and staff functions	996	1,225	1,395
8. Administrative services	907	957	1,038
9. Special study and investigation of national securities exchanges and national securities associations	412	538	----------
Total program costs, funded [1]	11,196	13,216	14,400
Change in selected resources [2]	58	----------	----------
Total obligations	1,,254	13,216	14,400
Financing: Unobligated balance lapsing	120	----------	----------
New obligational authority	11,374	13,216	14,400
New obligational authority:			
Appropriation	11,412	12,800	14,400
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (75 Stat. 353 and 76 Stat. 728) (—)	—38	—70	----------
Appropriation (adjusted)	11,374	12,730	14,400
Proposed supplemental due to pay increases	----------	486	----------

[1] Includes capital outlay as follows: 1962, $162,000; 1963, $62,000; 1964, $50,000.
[2] Selected resources as of June 30 are as follows:

	1961	1962	1963	1964
Stores	8	11	11	11
Unpaid undelivered orders	59	114	114	114
Total selected resources	67	125	125	125

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

We have with us this morning the members of the Securities and Exchange Commission. It is always nice to have this group before us. We have the very able and distinguished Chairman, William L. Cary. Is Commissioner Woodside here?

Mr. CARY. I am sorry to say he has been home sick since 3 o'clock yesterday afternoon.

(Off the record.)

Mr. THOMAS. We have also Commissioners Manuel F. Cohen and Jack Whitney II. Have you a vacancy?

Mr. CARY. Senator Frear has been ill. He is in now about 2 hours a day, 4 days a week.

Mr. THOMAS. Is he improving?

Mr. CARY. He is improving. I think he looks a lot better.

Mr. THOMAS. Give him and Commissioner Woodside our best and tell them we miss them and wish them a very speedy recovery.

We have Philip A. Loomis, Jr., Director of the Division of Trading and Exchanges. He is well and favorably known to us. He is an outstanding public servant. We are delighted to have him.

Allan F. Conwill, Director of the Division of Corporate Regulation. It is nice to have you with us.

Edmund H. Worthy, Director of the Division of Corporation Finance. It is nice to have you with us.

Milton H. Cohen, Director of the Special Study of Securities Markets. Are we going to be able to keep Mr. Cohen?

Mr. CARY. We will keep him until at least June.

Mr. THOMAS. It is always nice to have you with us, Mr. Cohen. You have made an outstanding contribution in this job.

Arthur Fleischer, Jr., executive assistant to the Chairman.

I wish to commend you for having with you William Green, regional administrator of the Atlanta office.

Mr. CARY. He came with us, as you know, from the Federal Trade Commission back in 1933.

Mr. THOMAS. We are delighted to have him. I think it is a good idea that you bring in one or two of your regional administrators every year. I notice the VA are bringing in all of their top people. They started that policy under Administrator Gleason a year or two ago. There are a lot of them, from 170 hospitals and 18 doms, insurance offices, and regional offices. They have in town a crowd of about 300 top medical people, area people, regional people, insurance people. I think it is most worthwhile. If everybody would take a look at their pattern, I think it would be beneficial to all the agencies.

Donald J. Stocking, regional administrator of the Denver office. We are delighted to have you, too.

Mr. CARY. Mr. Stocking was assistant regional administrator in Seattle for many years and came down to be the regional administrator in Denver last year.

Mr. THOMAS. He left a great city and came to a great one. I imagine I would rather be in Seattle than Denver, though, today. We are delighted to have you with us, Mr. Stocking.

We have also Frank J. Donaty, the Comptroller. It is good to see you again. We could not get along without you.

Mr. Chairman, if you and your fellow Commissioners want to talk to us or make a statement, whatever you want to do, we are more than delighted to have you.

Mr. CARY. I do have a statement, but I do not have copies to distribute.

Mr. THOMAS. Before you start, I think a few flowers to the living are in order. You have done a tremendous job. I don't think I have ever seen anybody come into Government service on the same footing as you have as far as enthusiasm and willingness to serve. I recall the first year Mr. Cary was here, I thought he was in the office over here with us all the time. He was over here once a week, but he was trying to find out what little we knew and to see if we knew half as much as he did. It took him but about 9 months to find out we did not.

He works at the job. I have found him at his office late at night. Of course, he was violating the wage and hour law, but he was still in his office. He does a tremendous job.

You have gotten along with the people you are supposed to regulate. I do not hear any abuse of you. I think you have brought a whole lot of balance to the trade. Certainly the public is greatly benefited by your good, level head and your good judgment. You are topnotch by any yardstick we want to measure you by.

Mr. CARY. Thank you very much. I enjoy my job. I don't think I could do it without the help and cooperation I have received from this committee. I am very grateful to you. I mean it.

Mr. THOMAS. We notice the people who like their jobs are the ones who do the best job. You people could go out in the financial world and do far better. That is the strongest evidence that you like your job. You have to like it before you can turn in a bangup performance. Anybody can do a mediocre job. We like to see people who do outstanding jobs, as you do.

Go ahead with you statement.

GENERAL STATEMENT

Mr. CARY. Thank you, Mr. Chairman.

I should like first to discuss the program activities and the financial requirements of the Commission for the fiscal year beginning next July 1.

The total amount of our request for next year is $14,400,000, an increase of $1,114,000 over the assumed amount of $13,386,000, which includes $486,000 for pay increases effective last October 14. The increase of $1,114,000 for 1964 represents $914,000 for personal services and $200,000 for other expenses. The sum of $914,000 for personal services is distributed as follows: (*a*) $418,000 for pay increases, (*b*) $344,300 for a net increase of 54 additional positions for the regional offices, and (*c*) $151,700 for salary step increases.

At the outset, I wish to state we have expanded substantially in the last 2 years with your concurrence. We feel this is the time to try to meet our responsibilities with a slight increase in the number of personnel, principally for our regional offices.

I shall cover, if I may, four topics.

1. The requested increase of 54 positions for 1964 for the regional offices.

2. The request of 23 positions for the central office for 1964.

3. Our registration statement activity and its related problems which we discussed with you at some length in prior hearings.

4. The one-half million dollar supplemental request for this year which was not enacted by the last Congress.

Mr. THOMAS. What does it all add up to—77 jobs or 23 jobs?

Mr. CARY. We are abolishing 23 of the positions that we had in the special study.

Mr. THOMAS. It means that you are asking for about 77 more permanent positions than you had.

Mr. CARY. Yes. Net, it would be 54, but you are right absolutely.

Mr. THOMAS. We do not want to be confused by this plus or minus business.

Mr. CARY. I am perfectly willing to state it the other way, as 77.

The first topic I would like to discuss, if I may, is the regulation and inspection of investment companies.

COMPLETION OF THE SPECIAL STUDY OF SECURITIES MARKETS

Mr. THOMAS. Since you mention it, to what date does the special study carry you to, April 1 or June 1?

Mr. CARY. April 3.

Mr. THOMAS. Does that give you the time you need to wrap it up and everything?

Mr. CARY. We are still shooting for that deadline. I won't guarantee we will have every paragraph and every part of the report out, but we will have a very substantial part of that report in the hands of Congress on April 3.

Mr. THOMAS. Have you the same supplemental pending with the Bureau of the Budget that you had last session?

Mr. CARY. No, we have not, sir. We decided we would attempt to absorb that. As you recall, that half million dollars that we asked for went through both the House and the Senate, but it was in that last supplemental appropriation bill. Therefore, we simply decided that we would have to reprogram our other activities. That meant roughly, as I recall, $200,000 applicable to the special study and $100,000 to carry over the people in the special study into our regular operations to handle the problems afterward; in other words, carrying out the recommendations. We have absorbed that $300,000 within our present appropriation, and therefore we do not have a supplemental pending.

Mr. THOMAS. How did you absorb it? Through attrition or how?

Mr. DONATY. As you realize, we received our appropiration this year on about August 31. There were 2 months in which we could not recruit because of the joint resolution. As a result, there was a savings.

Mr. THOMAS. You were operating under a continuing resolution?

Mr. DONATY. Yes, sir. In addition, we had to tighten our belt in other areas of expenses; for instance, equipment and supplies, matters of that nature.

Mr. THOMAS. I repeat my original question: How did you absorb it?

Mr. DONATY. Primarily, the absorption was made because we were unable to recruit personnel during the months of July and August.

Mr. THOMAS. Did you do it through attriton, not filling vacancies?

Mr. DONATY. Not filling vacancies, because of the continuing resolution.

Mr. THOMAS. Go ahead.

INVESTMENT COMPANY INSPECTION PROGRAM

Mr. CARY. I should like to discuss first of all our request for 54 positions for the regional offices. One of the Commission's principal problem areas relates to its administration of the Investment Company Act of 1940. Under this program, the Commission has its most active regulatory functions over companies and its most immediate supervisory responsibilities to shareholders. These responsibilities loom large when we note the enormous growth of investment companies. The aggregate net asset value of investment companies was $2.5 billion in 1940 as compared with $27.3 billion last June 30. Reliable estimates place the number of shareholders at 5.7 million.

Our request is directed at the manpower problem existing in our inspection program of investment companies. We are requesting funds for an increase of 24 positions for our regional offices to achieve a 3-year inspection cycle, which would be 240 inspections of investment companies.

Mr. THOMAS. I see that you hope to get it down to 18 months, but in a young and growing industry like this even 18 months may be too long a cycle.

Mr. CARY. Sir, I do not have any illusion that we can get our inspection cycle down to 18 months for some years. We are shooting for this target.

Mr. THOMAS. Roughly, how many companies are there?

Mr. CARY. There are roughly 700, but I would like to ask Mr. Conwill to give us the precise figure.

Mr. CONWILL. As of yesterday, 722.

Mr. THOMAS. They can go into business without any certificate from anybody. All they have to get is a corporate charter.

Mr. CARY. For all practical purposes. They have to register with us, but that is a registration process simply providing the adequate information and fulfilling certain requirements of the Investment Company Act. Those primarily can be fulfilled by any company that is going into a legitimate operation as an investment company, either closed end or mutual fund.

Mr. THOMAS. What are the requirements that might be a prohibition imposed by your act?

Mr. CARY. Basically, there is no prohibition at all. There are certain restrictions; for example, you may not have senior debt in an investment company, but that is not a requirement that they cannot meet. In other words, there would be certain conditions to entrance but, as I see it, there is no prohibitory type of requirement. I think you state correctly that they can go into business as they choose if they file the necessary papers.

Mr. CONWILL. They must have a $100,000 minimum capital requirement. Basically, almost anyone can get into the investment company business, provided he has not been convicted of a crime involving the purchase and sale of a security, and that sort of thing.

Mr. THOMAS. In the very fast growing days of the savings and loan business, how frequent were the examinations of the Home Loan Bank Board? Every 36 months or 24 months?

Mr. BOLAND. Yes.

Mr. THOMAS. Finally, they have gotten it down to 12 months. In a fast-growing industry such as you have, that is the only way you will keep up with your information. Is there any opposition to your investigation and inspection work?

Mr. CARY. I would say there is no opposition to our doing inspection work.

I have brought along with me, by the way, some copies of a speech I made before the Investment Bankers Association, in which I was talking about self-regulation in the securities industry. This is an area in which I have a very substantial interest.

One of the major areas I was talking about was the investment company field and this very question of inspections. I was trying to urge the Investment Company Institute, which is a trade association, to work with us on a program of inspections, because I have been worried about our doing enough of it. I have also felt this is an area in which they could participate and pay some of the costs for us.

Mr. THOMAS. What jurisdiction do the States have over these companies? What does the inspection service of the States amount to, if anything?

Mr. CARY. They do not have any counterpart to the insurance superintendent. In other words, they do not have the careful regulation and inspection of investment companies that they do, for instance, over insurance companies. To my knowledge, in most States, unless there is some fraudulent activity which is suspected and which they could get into, I would think there would be no counterpart.

Mr. THOMAS They are first put in business by State charter, are they not?

Mr. CARY. Of course, they have to incorporate under a State charter; that is correct.

Mr. THOMAS. There is no supervision or investigation by the various State agencies?

Mr. CARY. Not basically, not any more than an industrial concern. Mr. Conwill could speak to this.

Mr. EVINS. I am aware of the fact that there are more than 600 small business investment companies now chartered, licensed, organized, and operating. You refer to 700. Of these, 600 have recently been chartered.

Mr. MANUEL F. COHEN. They are not all subject to our act.

Mr. EVINS. This is an area of controversy, whether the SEC or the Small Business Administration should make inspections and supervise them.

Mr. CARY. That is a very definite problem.

Mr. EVINS. You are not referring to the 600 small investment companies.

Mr. CARY. Could I ask Mr. Conwill to speak to that?

Mr. CONWILL. I think the latest figures from the Small Business Administration show slightly over 700 small business investment companies. However, only those that make a public offering of securities are subject to our jurisdiction, which means that only approximately 100 are subject to our jurisdiction.

Mr. EVINS. They have thus far not offered, but that does not preclude them from making offerings in the future for additional financing.

Mr. CONWILL. That is correct.

Mr. EVINS. If they made an offering at any time in the future, then they would come under your jurisdiction.

Mr. CARY. They would come within our jurisdiction.

(Off the record.)

Mr. EVINS. You have the potential of doubling the number of investment companies under your jurisdiction.

Mr. CARY. Yes, sir.

I don't know whether you would be interested in a copy of this speech which I mentioned, but on page 11 I did point out to the Investment Company Institute that there was an opportunity for them to engage in self-regulation and to participate in the inspection program. I thought this would be a good idea philosophically and also budgetarily. In other words, it might cut down the demand we would have to come before you and ask for additional people.

Mr. THOMAS. There was recently a decline in the market for stocks, bonds, and securities. That would be a pretty good test one way or the other whether you need any inspection. How did the securities of these investment companies fare?

Mr. CARY. I would say they fared——

Mr. THOMAS. You give some examples in the justifications, but you might spell that out for the record in a little bit more detail. How did they fare?

Mr. CARY. By and large, the asset value dropped off somewhat in accordance with the market as a whole in dropping off. For example, when I came here a year ago I think I would have said that the asset value of the investment company industry was in excess of $30 billion, but it did drop off substantially.

Mr. THOMAS. Did they do as well as the stocks and bonds of the average corporation?

Mr. CARY. It is hard to say there is an exact correlation, but they dropped off somewhat in the same percentage.

Mr. Conwill, would you speak to that?

Mr. THOMAS. I believe the most concrete statement you made in your justifications is that the public perhaps lost its sweet tooth for investment; certainly the speed at which they went into that type of investment slowed down.

Mr. CARY. I think there has been a slowing down in the total amount of purchase of shares, but the public is still buying them. After all, there is a tremendous amount of savings that is going into some area of investment and the investment company field is definitely one of them.

Mr. CONWILL. I think I might answer this way: Those funds which had an investment policy of investing in speculative stock issues had a very sharp depreciation in their values after the market break. Those funds which had a more conservative policy of investing—blue chips, preferred stocks, and bonds—had much less depreciation, but they had a sizable depreciation, too. I think the impact is that the market break did cause a sizable reduction in their sales compared to last year.

Mr. THOMAS. Did any bad business practices come to light? Did anyone lose an appreciable amount of money? Did any of them go broke or anything like that?

Mr. CONWILL. None of them went broke; no, sir.

Mr. THOMAS. That is not a bad record, is it?

Mr. EVINS. What is the estimated capital net value of the investment companies now as compared with a year ago?

Mr. CARY. It is about $27.3 billion now. At least, that is the latest figure we have.

Mr. EVINS. A $3 billion drop.

Mr. CARY. I would say more than a $3 billion drop.

Mr. CONWILL. At one point it dropped a little over $5 billion.

Mr. THOMAS. The listed stocks on the major stock exchanges showed about the same proportion of loss or maybe a little bit more?

Mr. CARY. That is correct. In other words, it went along in somewhat the same relationship.

REAL ESTATE INVESTMENT COMPANIES

Mr. THOMAS. Are the real estate trusts separate and distinct?

Mr. CARY. Real estate investment companies are not under our Investment Company Act jurisdiction. Basically, there is an exemption from the Investment Company Act.

Mr. THOMAS. You don't take a look at them, then?

Mr. CARY. We do. We have been very much involved in the real estate field, as you may have noticed from the Wall Street Journal in recent times, but it is on the side that Mr. Worthy is involved in, namely, the Division of Corporate Finance. There our job is exclusively disclosure. The fact of the matter is that we have made a very careful effort to insure that the facts with respect to these real estate companies are in front of the public. We have had a very substantial amount of problems recently with a number of the so-called cash flow type of real estate companies which are operating primarily to produce a large amount of cash through depreciation as well as profits which they distribute to the public in substantial part tax-free.

Mr. THOMAS. Have you any direct jurisdiction over them?

Mr. CARY. We do not have any jurisdiction over them.

Mr. THOMAS. How do you assume any jurisdiction, then?

Mr. CARY. Through the disclosure requirement. When I said jurisdiction, I meant we do not have any regulatory power. We do have jurisdiction over the disclosure. In other words, we make sure that all the facts are properly stated to the public; that is, where we have begun to have problems because there was a failure to state the exact facts. For example, the basis on which cash distributions were being paid, whether in fact it was being paid from the proceeds of stock that a company was issuing or whether it arose from depreciation and earnings of the company.

Mr. THOMAS. What is this type of investment based on? What is behind it?

Mr. CARY. It has a very substantial tax base because of the fact that a real estate company can pick up a piece of property and then begin to accelerate the depreciation which they take. As a consequence——

Mr. THOMAS. That applies only to the improvements thereon. Isn't that true?

Mr. CARY. No. It applies to the building. Yes, you are right, if that is what you mean—the original building and the improvements upon it.

Mr. THOMAS. One is depreciation of improvements on the land.

Mr. CARY. That is right.

Mr. THOMAS. What is next?

REAL ESTATE TRUST DIVIDENDS

Mr. CARY. That is the basic factor, you might say, that makes them particularly attractive. A company can distribute a very substantial amount of money back to its shareholders which is tax free because it is really distributing the depreciation which they have taken on an accelerated basis pursuant to——

Mr. THOMAS. Do the ad valorem taxes figure in it in any way?

Mr. CARY. I cannot speak to that. I do not know.

Mr. MANUEL F. COHEN. That is right. The device, as the chairman explained, is using that which is a tax deduction, although not an actual cash outflow, as a return of capital.

Mr. THOMAS. That is equivalent to cash in one sense.

Mr. MANUEL F. COHEN. Yes, sir.

Mr. CARY. That is correct.

Mr. JONAS. The trust has to pay out a certain percentage of its cash earnings in order to qualify for tax exemption, does it not? That is a high percentage, too.

Mr. CARY. Mr. Cohen, could you speak to that?

Mr. MANUEL F. COHEN. If you are speaking about a real estate investment trust——

Mr. JONAS. Yes.

Mr. MANUEL F. COHEN. I think you are quite right. I think the chairman was speaking generally to the type of real estate operation which is a cash flow operation.

Mr. JONAS. We are talking right now about real estate investment trusts.

Mr. CARY. I must say I was referring not only to real estate investment trusts but real estate companies generally.

Mr. JONAS. You told us you had some pretty clear lines of jurisdiction over real estate investment trusts.

Mr. CARY. I said that we were extremely interested in their problems, as well as those of other real estate companies, Congressman Jonas. You will notice, for example, we have at the moment a stop order proceeding pending with respect to a corporation. We are already studying the problems of real estate companies.

Mr. THOMAS. How many of them are in existence and doing business?

Excuse me. Go ahead.

Mr. JONAS. Can you tell us offhand how many?

Mr. CARY. Mr. Worthy, have you any information on the number of real estate companies? I think we have a study on that. Perhaps Mr. Worthy, the head of our Division of Corporation Finance, can answer that.

Mr. JONAS. I ask the question to clear the record. Someone reading the record may get the impression the dividends are tax free to the stockholders. You did not mean to imply that. You meant it was not taxable to the trust.

Mr. CARY. Actually, they are tax free to the stockholders, too, Congressman Jonas.

Mr. JONAS. Is that right?

Mr. CARY. For this reason: They are really not distributed out of the earnings and profits of the company, which may be zero. To the extent they are distributed out of earnings and profits, they would be income and taxable, but a large portion of it is not earnings and profits of the company but represents this depreciation factor.

Mr. THOMAS. Capital investment.

Mr. CARY. That is right.

Mr. MANUEL F. COHEN. It is a return of capital.

Mr. CARY. It is a return of capital, and so treated.

Mr. WYMAN. A reduction of basis.

Mr. CARY. That is right.

Mr. JONAS. How can a stockholder know how to make his tax return?

Mr. WHITNEY. He is told. The company gives him a report.

Mr. JONAS. On the percentage?

Mr. WHITNEY. Yes, sir, in dollars. We cleared a case 2 days ago this week where the investor was going to pay $4,000 for his unit of investment, and they estimated he would get $420 a year in cash on that unit. Out of that $420, only $54 represented income as you and I understand it. The rest of it was return of capital.

(Off the record.)

Mr. CARY. We want to insure they do know what they are buying. That is the only kind of jurisdiction we have at the moment with respect to these companies.

JURISDICTION OVER REAL ESTATE COMPANIES

Mr. THOMAS. How intensely and deeply do you go into these companies?

Mr. CARY. I would like Mr. Worthy to speak to this, but I can start it off, if I may. First of all, in a registration statement they must describe the properties which they have. I might add we wrote a special registration form just for real estate companies. Secondly, they have to give financial statements with respect to their properties. Thirdly, there is a separation of the depreciation element from the earnings, so the public is completely aware of the fact that they are getting a return of capital. Finally, we want to insure that the public knows that the money that they will receive is available to the company and will not arise from additional debt that they were incurring or an additional stock issue. We want to know the source of the cash as well as the source of the payment.

Mr. THOMAS. How often do they file a statement.

Mr. CARY. First of all, if these are very substantial companies—and the cash flow companies to which I have referred are substantial—they are required to make periodic reports—actually, quarterly reports, if I am not mistaken. We have instituted in the last year, which goes to the point you made a moment ago, Congressman Jonas, a new requirement of a form for real estate companies which specifies a division of cash distributions and cash flow into what part is earnings, what part is depreciation, and what part arises from other sources. So there is a periodic analysis being made of the payments which the parties are receiving. This is a way by which the companies themselves have control over their operations. Also we are made aware that they are not paying out more than they are in a position to do—that the companies are complying with their representations.

REAL ESTATE COMPANY MARKETS

Mr. WYMAN. Is the relationship between this reduction in basis and the depreciation, and so forth, that is taken as a return, reflected in the market price of the securities involved. As they draw out unearned income, can you see the market price follow this? Are the people aware of this?

Mr. CARY. I would like Mr. Worthy to speak on that.

Mr. WORTHY. One of the problems that we have had under very serious consideration is whether or not the increase in the distribution by the month or the quarter in fact has not raised the price of the security. That is one of the problems we have under study at the present time.

Mr. THOMAS. That sounds all right on an ascending real estate market, but we have not had one now for 2½ or 3 years. What about on a descending real estate market? How does that change the picture?

Mr. CARY. They have been cutting their payments recently, in part.

Mr. WORTHY. Some of them have. They make every possible attempt to keep them at a steady level, if they cannot in fact increase them. Some of these companies have gone so far as to sell properties which they have in order to take a capital gain and make a profit. That money then is used for a cash distribution in order to be able not to have to cut their regular, advertised rate of return.

(Off the record.)

Mr. JONAS. I would like Mr. Worthy to put in the record the information that he was looking up, the extent to which these trusts have developed.

Mr. WORTHY. I do not have the exact figures as of December 31. I would say there are approximately 60 of the real estate investment trusts alone. That does not mean that those are all of the real estate filings we have had. We have had innumerable filings by ordinary corporate real estate issuers which are not under the real estate trust.

Mr. JONAS. To qualify as a real estate investment trust under the Internal Revenue Code, the trust must pay out what percentage of its earnings each year?

Mr. WORTHY. I think approximately 90 percent.

Mr. JONAS. Many of the real estate holding companies to which you refer are not seeking that kind of tax haven. They operate ordinarily, do they not?

Mr. CARY. That is correct.

Mr. WHITNEY. That is correct.

Mr. CARY. Actually, they have a built-in tax haven because they have never generated enough earnings. Most of their payments are in fact out of depreciation and, therefore, not subject to taxation in the hands of shareholders; reduction of basis, as Congressman Wyman indicated a moment ago.

Mr. JONAS. That is all.

Mr. THOMAS. Proceed with your statement, Mr. Chairman.

ADDITIONAL PERSONNEL—INVESTMENT COMPANY PROGRAM

Mr. CARY. As you recall, I was referring to investment companies. As I said a moment ago, our discussion is quite pertinent to the work of the Division of Corporation Finance, but this is something over which we do not have jurisdiction through the Investment Company Act. However, as Mr. Conwill pointed out a moment ago, we have about 700 investment companies which are under our jurisdiction and in which we must have an inspection program.

Recent events have required a broad reexamination of industry practices in the investment company industry. As you may know,

50-odd private lawsuits have focused our attention on the relationship of investment companies to their managers. The Wharton School of the University of Pennsylvania has completed, at the direction of the Commission, an extensive study of various aspects of mutual funds. Therefore, the Division of Corporate Regulation and the Special Study are at the present time reviewing the industry problems.

(Off the record.)

Mr. CARY. The number of positions now available to the Commission to handle the inspection of investment companies is wholly inadequate. Inspections made in past years reveal many irregularities and indicate the need for substantial extension of this program for the protection of public shareholders. The inspection program represents preventive enforcement for the protection of the investing public.

OBJECTIVE OF INVESTMENT COMPANY INSPECTION PROGRAM

It is the Commission's goal, as was said a moment ago, ultimately to have an inspection on the basis of an 18-month cycle. Until that objective is met the Commission cannot state that it is meeting its full regulatory responsibilities. We do believe it will take a few years before we can achieve that.

May I say further, although we come in and ask for additional people for certain goals, up to this point we literally have not met the goal which we have attempted each year because each time we make an inspection—not each time but very frequently when we make an inspection—we find a problem. Therefore, an inspection means further investigation.

As a consequence, for example, this year I think our target is 90 inspections with respect to 700 companies, but as of January 27 of this year we really have gotten through only 44 inspections and we have only 20 reports out of those 44. This is for really a half year. Therefore we are not yet meeting even our goals because of the difficulties involved in this inspection program.

That is one of the reasons, if I may say, why I have been urging the Investment Company Institute to work with us in a self-regulatory program of inspection so they will assume some of the burden and do it on a basis which would be cooperatively with us and generally under our supervision. That was the thrust of my speech at the——

Mr. EVINS. How many inspectors do you have?

Mr. CONWILL. Full-time inspectors in the field and regional offices number 10.

I have a total of five full time. In the regional offices there are about 27 who do it on a part-time basis, and then I throw in people from the regular process.

Mr. EVINS. You have 15 doing it on a regular basis?

Mr. CARY. We are asking for 24 more.

Mr. EVINS. How long does it take to make an inspection of an average financial institution?

Mr. CARY. Theoretically two men should do it in 3 weeks. The theory just does not seem to work because so many problems are uncovered where frequently you have to have some kind of additional investigation.

To give you an exact figure, Congressman Evins, is a little impractical. We found so many problems involved.

Mr. THOMAS. In your figure of 15 is it not inaccurate? The people in the regional offices are ambidextrous, so to speak. They are very capable. They can do anything.

Mr. CARY. We try to keep them that way; yes, sir.

Mr. THOMAS. If he does something today he does something different tomorrow. When you say 15 it does not quite tell the tale.

Mr. CARY. I think it is an understatement, although this takes a considerable amount of skill and training in order to do it.

I know when I was down in Atlanta in November, and Mr. Green can speak to this, as our regional administrator there, he was sending out two people on that very day to handle an inspection of an investment company.

Mr. THOMAS. We have Brother Green here from the Atlanta regional office. We certainly welcome him again.

Tell us about some of your problems down there. You are growing fast there.

Mr. GREEN. And we are proud of that growth, Mr. Chairman. I think the weather we have had down there recently acclimated me to this weather. I am generally not used to it.

Mr. THOMAS. Around zero?

Mr. GREEN. Two below zero there one day.

Coming back to the first thing the chairman mentioned, I am a country boy and I use country expressions although I am traveling with a sophisticated group.

Mr. THOMAS. We talk your language.

TRAINING OF INVESTMENT COMPANY INSPECTORS

Mr. GREEN. This investment program is breaking new ground for us. We have not done too much of that. It requires a great deal of training.

We are just commencing our inspection program. So far we have 33 investment companies in my region with assets of about $85 million.

The phase we did was the broker-dealer work. You have a sponsor and underwriter. We made the inspection of the broker-dealer. We had men loaned to us from the Division to make the examination required of the Investment Company Act.

At this time my men are not trained to make an examination under the Investment Company Act. We have to train them.

Mr. THOMAS. Here I have been bragging about you and your men and now you are snatching the blanket off me.

I thought you already trained them.

Mr. GREEN. Not under the Investment Company Act because we have had no responsibility under that act until recently. Now we have been given the responsibility, we will train the men, and let them undertake the job. It is a time-consuming job.

Mr. THOMAS. You are not exactly in virgin soil, though, are you?

Mr. GREEN. That is right.

Mr. THOMAS. Other activities are almost first cousins to this. You are not strangers.

Mr. GREEN. You made a very accurate statement a moment ago.

Mr. THOMAS. Just one?

Mr. GREEN. So far as I am concerned, every man in the regional office has to be able to do every job. In other words, we cannot specialize. We use a man as the need comes up. We try to train every man so he knows about every phase of our work. We cannot operate otherwise, particularly in a small office such as I have.

This statute is very complicated. There are many restrictions in there. Unquestionably we have to train the men. We will train them. We will make the inspections. I think we can make them in conjunction with our broker-dealer inspections.

You asked a question a moment ago I would like to answer. Our principal work in the field office in Atlanta involved the majority of time in investigation and prosecution of cases.

While this may not sound reasonable, it is a fact that it takes more time in a case after it is once referred and complete it than it does to redevelop a case for reference.

As you well know, most assistant U.S. attorneys are not career men. They come and go rapidly. Our cases are complex and most of them involve accounting work. The result is that we have to spend considerable time preparing the assistant U.S. attorney to try the case, even before it is presented for indictment, and as it is tried we have to practically hold his hand.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. GREEN. We have happy relations in my area with the States. We work closely with the State commissions. If it is a simple case, not involved, they will handle it and we will loan them an expert to help. A complicated case we handle because we have expert men.

Mr. THOMAS. Our distinguished visitor here has expert men in one breath and in the next breath he hasn't quite trained them.

Mr. CARY. We are running a training school on this very subject in this very month in New York.

Mr. CONWILL. We have a training program in New York which will last for 4 weeks.

Next month, we will give the same course in Chicago for that regional office, regional offices nearby, and the following month we will go to San Francisco to give the course again.

Mr. THOMAS. Mr. Jonas?

Mr. JONAS. This is on a subject entirely removed from the one under consideration. I shall wait until the chairman finishes his statement.

Mr. EVINS. He is saying the country lawyers have to brief the smart boys, Mr. Chairman.

NEW LIFE INSURANCE COMPANIES

Mr. JONAS. A few years ago there was a rash of life insurance company formations. Has that subsided?

Mr. GREEN. Yes, sir.

Mr. CARY. I would say it has subsided.

Mr. JONAS. Was the market overcrowded?

Mr. GREEN. We have not had many in the last 2 or 3 years. They were organized more in the South than elsewhere. More life insur-

ance companies were organized in 1 year in Alabama than in any other State in the Union.

Mr. JONAS. We had quite a few, too.

Mr. GREEN. In North Carolina; yes, sir.

Mr. JONAS. You could not walk down the street without seeing a new life insurance company operating.

Mr. GREEN. We have a situation going on again, shotgun mergers. We have a lot of life insurance companies unable to make a go of it. They bring about mergers with larger companies. We have a substantial number of those cases.

Mr. JONAS. You have had no serious trouble with them, have you?

Mr. GREEN. We have prosecuted some of them.

Mr. JONAS. For what kinds of violations?

Mr. GREEN. We have jurisdiction only over the disclosure aspect and the registration.

Mr. EVINS. Off the record.

(Discussion held off the record.)

Mr. OSTERTAG. What about over-the-counter?

JURISDICTION OVER INSURANCE COMPANIES

Mr. CARY. I refer to the securities. We do not have any control, Congressman Ostertag, over the sale of insurance itself. That is very carefully kept under the jurisdiction of this insurance superintendent. They are totally exempt from our jurisdiction except so far as the offering of the securities which would be subject to the Securities Act of 1933.

If we take the next step of having a broader list of over-the-counter securities subject to reporting requirements, then they would have to file information about the companies.

Mr. OSTERTAG. At one time there was quite a controversy over insurance such as between the States and the Federal Government over central control.

Mr. CARY. That is correct.

Mr. OSTERTAG. Has that been resolved?

Mr. CARY. There was a Supreme Court case which in effect indicated, if I am not mistaken, that the Federal Government could have jurisdiction, but then it was immediately followed by a new act of Congress which exempted it. That was the McCarran Act. It was laid to rest at that time.

Mr. CONWILL. There is another exception which should be mentioned. When the insurance companies get into noninsurance activities, into investment company activities, such as with the variable annuity, then we assert our regulatory jurisdiction over that phase.

Mr. OSTERTAG. Are insurance companies generally speaking the largest investors?

Mr. CARY. In total investment in securities?

Mr. OSTERTAG. Yes.

Mr. CARY. The major investors today are probably pension funds, investment companies, insurance companies, trusts as a whole, and then the public generally.

I would think that insurance companies do not have as large a portfolio of equities as either pension funds or investment companies, for

the reason that primarily insurance companies are still invested on the bond side.

The answer is, if we are talking in terms of equity investments, insurance companies are perhaps in third place among the institutions. I am not sure I am precisely correct, but they are probably in third place behind pension funds and investment companies.

VARIABLE ANNUITIES

Mr. THOMAS. Have you not just finished an insurance case involving Prudential?

Mr. CARY. That is right. I wrote an opinion on that.

The issue came up as to whether Prudential of New Jersey could issue variable annuities which would not be subject to our jurisdiction.

The general argument they made was that they are an insurance company and therefore exempt from the application of the Investment Company Act of 1940.

We took the position in a general way that that is true with respect to insurance transactions. However, when you get into selling a variable annuity, which depends upon the market, you really are selling primarily an interest in a unit of an investment company. Therefore, to the extent that they are proposing to sell variable annuities that phase of the business would be subject to the investment——

Mr. THOMAS. What do you mean by variable?

Mr. CARY. In the conventional annuity, I may make a substantial payment, a few thousand dollars now, with the idea of having an annuity which will run from age 65 to my death. The insurance company will pay me a fixed amount of dollars until death; they guarantee the payment of this fixed amount.

On the other hand, in a variable annuity, the insurance company will not assure you an exact amount each year. They agree only to pay you a fixed number of units, the value of which depends on the value of a portfolio of investments. In other words, it will depend on the varying value of stocks in which they will invest—the annuitant's payments will essentially fluctuate with the stock market.

Mr. THOMAS. How does the variable feature attract or detract? Insurance is based on two things—selling the policy and getting the money, and then investing it. They are in the business of selling primarily. They are bankers. They have to go out and invest the funds they take in, whether it is in stocks or what not. What does the variable feature add to it? If you get anything for the money you pay in it depends upon the success of the company's investment.

Mr. CARY. Mr. Conwill was in South Carolina yesterday discussing this very problem. I will ask him to speak to it.

Mr. CONWILL. In the usual annuity, as we ordinarily think about it, you make a fixed payment.

Mr. THOMAS. When it is fixed, is that exempt under the act?

Mr. CONWILL. That is right.

Mr. THOMAS. There is the answer to my question.

Mr. CONWILL. At 65, they will guarantee to pay you $100 a month. The difference in the variable annuity is that you make your payments and they take your payments and put them in a fund composed largely

of equity securities. Then they say, "We will pay you whatever your interest works out to be in that pool on your retirement," so it will vary.

The advantage of the——

Mr. THOMAS. The sale is not based upon any limitation of where they reinvest the fund, is it?

INVESTMENTS OF INSURANCE COMPANIES

Mr. CONWILL. It is based on the idea they will invest your money in equity securities.

Mr. THOMAS. Nothing else?

Mr. CONWILL. They might throw in a percentage of bonds.

Mr. THOMAS. Real estate?

Mr. CARY. It depends on their policy.

Mr. THOMAS. Office buildings? Anything that produces a revenue is what they are interested in, is it not?

Mr. CONWILL. They confine themselves to securities, predominantly equity securities.

Mr. CARY. Today an insurance company has a limited percentage of its assets in real estate. It is a very limited percentage. I don't know whether it will carry over——

Mr. THOMAS. It depends on the charter of the issuing State. Don't they have the Robinson-Patman Act in my State which says that any insurance company which comes into that State will have to invest X amount of their cash inflow in Texas real estate, securities, and so on?

Mr. CONWILL. Almost every State specifies what the insurance company can invest in generally, and the percentage. Normally you find they are conservative investments, bonds, debt securities, and real estate.

Mr. THOMAS. I don't know of anything safer than real estate. The good Lord doesn't make very much additional land every day.

Mr. CONWILL. There is an exception for the variable annuities, and the exception is a statute which states in substance, notwithstanding any other limitations you can create a separate account and use that separate account to invest in equity securities.

Mr. THOMAS. Is the company accepting your opinion?

Mr. OSTERTAG. Is this all associated with the original charter?

Mr. CONWILL. This is a recent development. Thinking in terms of 15 years ago this would have been unheard of.

JURISDICTION OVER INSURANCE COMPANY INVESTMENTS

Mr. OSTERTAG. These insurance companies are all chartered under the various States.

Mr. CARY. That is right.

Mr. OSTERTAG. There are some States which have a larger number of insurance companies by virtue of one reason or another. I was wondering whether the point you are developing is associated with the original right or charter under which they are granted rights for doing business?

Mr. CONWILL. It would constitute an amendment to their charter. For example, Prudential, incorporated under the New Jersey law, got a specific amendment for the purpose of going into the variable annuity business.

There are many States who as yet do not permit insurance companies to engage in that.

Mr. OSTERTAG. We have 50 States and perhaps 50 different basic principles under which these organizations or companies can do business.

Mr. CONWILL. That is correct.

Mr. OSTERTAG. Does that create a tremendous problem within your jurisdiction?

Mr. CARY. We hope by this principle of establishing our jurisdiction over the fund which is invested in equity securities and provides for variable annuities to regularize that phase of the business. We are only asserting jurisdiction over the investment company phase of the problem; the States still regulate the insurance phase.

Mr. THOMAS. If I may repeat my question—do the companies accept the rule?

Mr. CARY. We don't know yet. The opinion was handed down last week. We believe and we hope that the insurance industry will be satisfied with the way we are offering certain exemptions to make it a practical administration and a cooperative regulation with the insurance superintendents. We believe under these circumstances it should be acceptable to them, but I cannot guarantee it will be. It may be appealed.

Mr. THOMAS. Continue with your statement, please.

INVESTIGATIONS AND ENFORCEMENT PROGRAM

Mr. CARY. The discussion you had primarily with Mr. Green of our Atlanta regional office brings up the second phase of our request of 27 positions for our regional offices for the investigations and enforcement program

Mr. THOMAS. Mr. Green doesn't need any. He already has his distinguished staff trained.

Mr. GREEN. I didn't say that, Mr. Chairman.

Mr. THOMAS. Excuse me.

Mr. CARY. Our examination of registration statements and regulation A filings is the beginning of our jurisdiction over the distribution of securities. It is not the termination of our responsibilities. We must be in a position to determine whether the registration or antifraud provisions of the act are being violated not only during a public offering but in the subsequent trading of a security.

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 the courts. Our backlog of investigations has reached an unrealistic figure, 985, and as of December 31 it is 1,054, and it must be reduced.

The criminal workload has increased substantially in the past few years. The Commission referred a record 64 cases to the Department of Justice for the 12-month period ending June 30, 1962, as compared with 17 in 1958.

We anticipate an additional 55 cases will be referred to the Department in this fiscal year. Moreover, the number of charges, of defendants and co-conspirators in the past few years has increased. Such criminal work is far more demanding in both extent and depth

than required in most civil and administrative proceedings. On last December 31 we had 131 criminal cases pending with the Department of Justice.

Experience has shown the Commission that effective enforcement demands recourse not only to the civil and administrative remedies but to criminal as well if full effectiveness is to be achieved in halting the illegal activities of these violators.

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.

"UNITED DYE" CASE

In that connection you might be interested in an article which appeared in the Wall Street Journal dated January 23 of this year in which they describe the longest criminal trial on record in the Southern District of New York. It is the *United Dye* case where we have had two people working with the U.S. attorney for more than a year. Mr. Donaty has been complaining about their being up there on per diem for this period of time but they never seem to finish the case.

The story in the Wall Street Journal refers to this as the longest case on record, longest criminal case of record in the southern district, and perhaps one of the longest cases ever held.

Mr. LOOMIS. This is the longest criminal trial in the history of the Federal courts.

Mr. THOMAS. What was the nature of it?

Mr. CARY. It is called the *United Dye* case. Mr. Loomis can explain it better than I.

Mr. THOMAS. What is the situation?

Mr. LOOMIS. We are trying quite a number of individual defendants.

Mr. THOMAS. Without a jury?

Mr. LOOMIS. It is a jury trial. There were 16 original defendants during the year that the case went on. Nine of them—more than that—pleaded guilty, one had a heart attack, and the remaining five are still involved. It is a very complicated case. I could take your time to describe it, but perhaps it might be more interesting if you read this article.

Mr. EVINS. I prefer your describing it to us. I have too much reading material.

Mr. LOOMIS. In essence this involves a situation where United Dye was a company listed on the New York Stock Exchange and not doing very well. A group of people headed by Mr. Alexander Guterma, who has been in the papers from time to time, bought control of the company. Then another group of people who became allied with him, who came from Nevada mostly, got into the picture. They bought for some $500,000 some oil and coal properties and gave him a note so they didn't put up any money.

Then they put the oil and coal properties into a corporation which had no assets. Then they conveyed it to United Dye in exchange for some 575,000 shares of United Dye, which then was selling on the New York Stock Exchange in the neighborhood of $10 or $12, so there is

about $5 million worth of stock which they got for some properties which they had purchased for $500,000 but not yet paid for.

Mr. THOMAS. What were they charged with?

Mr. LOOMIS. Lots of things.

Mr. THOMAS. How many counts in the indictment and what were they?

Mr. LOOMIS. There were 30 counts in the indictment. Basically they charged fraud in the sale of these securities, filing false reports with the Commission, manipulating the market in New York and elsewhere in these securities. They made about $5 million.

Mr. THOMAS. On which count did you have the most difficulty in making your proof?

Mr. LOOMIS. Since the jury has not decided——

Mr. THOMAS. It is not through?

Mr. LOOMIS. Nine of them pleaded guilty. The jury still has not been heard from.

Mr. CARY. The jury will be charged this week, I believe.

Mr. WORTHY. The judge began charging the jury yesterday afternoon. His charge may take the remainder of the day. The case perhaps will go to the jury tomorrow.

Mr. JONAS. How can a court keep a jury there for a year? Is there a problem?

Mr. LOOMIS. I wondered about that.

Mr. WORTHY. How they kept the jury that long, I don't know. I am sure they did not keep them locked up overnight.

Mr. LOOMIS. They knew it would be a long case when it started and in the selection of the jury they tried to pick people who could stick around for some time.

NUMBER OF INVESTIGATORS, ATTORNEYS, AND OTHER POSITIONS

Mr. WYMAN. How many field investigators do you have?

Mr. CARY. Over the whole country?

Mr. WYMAN. Yes, approximately.

Mr. DONATY. Seventy-eight on board as of December 31.

Mr. WYMAN. You have 1,054 investigations underway as of the end of December 1962?

Mr. DONATY. That is right.

Mr. WYMAN. Are these men engaged in several investigations concurrently?

Mr. DONATY. This is strictly investigative. In addition to the investigators, we have attorneys who also work in these cases—Commission-wide, we have 371.

In addition many of these investigators have broker-dealer inspection experience. We have approximately 66 of those. Also we have financial analysts and accountants out in the field.

Of the total employment in the field, approximately 60 percent of that employment is devoted to investigations and enforcement actions. Enforcement actions include civil, administrative, and criminal proceedings.

Mr. WYMAN. And those investigations are, practically speaking, conducted in large measure by your accountants and attorneys as well as the 78 actual investigators?

Mr. DONATY. That is correct.

Mr. CARY. We can give you a breakdown by classes if you would like. We have, for example, a total of 371 attorneys in the SEC, of whom 170 are in the field. I suppose more than 170 would be involved in that.

Mr. WYMAN. Do these field men work on more than one case at the same time?

Mr. CARY. That is correct.

Mr. EVINS. Mr. Loomis is a tough sheriff. He keeps them busy.

Mr. CARY. That is right.

Mr. THOMAS. Go ahead.

Mr. CAREY. That completes the discussion that I wanted to have.

Mr. THOMAS. That is a fine and informative statement.

Mr. CARY. I have more; I meant that I have completed my discussion with respect to these two major categories of inspections of investment companies and the investigation field.

I have indicated the 2 programs for the regional offices of the 51 we are requesting. The other three are for interpretation and information in the New York regional office because of the increased number of interpretative questions and general information problems posed to that office.

ADDITIONAL POSITIONS FOR THE CENTRAL OFFICE

The next item is the increase of 23 positions for the central office for 1964 which is offset by the reduction of 23 positions in the special study by next April 3. For the current fiscal year, as you may know, 65 positions have been allocated to the special study of securities markets. It is our anticipation to transfer 42 of these positions to our regular staff on or about April 3, which is the termination date of the special study. Accordingly, the remaining 23 positions will be abolished as to the special study. These positions represent the top 8 positions of the special study staff and 15 stenographic and clerical positions. The 23 additional positions—in other words, we are abolishing 23 from the special study but we are turning them over into other areas—for the central offices are distributed roughly as follows:

Five clerical and stenographic positions in the Division of Trading and Exchanges for the anticipated increase in workload for the processing of new applications and amendments for registration of broker-dealers and investment advisers, and to provide adequate stenographic assistance to professional personnel in the investigations and enforcement program.

Four statisticians in the Division of Trading and Exchanges for the purpose of providing the Commission on a continuing basis financial and statistical data relating to the stock market and registered broker-dealers.

Eight positions for the Division of Corporate Regulation because of an anticipated increase in workload under the investment company program and our chapter X activity of the National Bankruptcy Act. That has increased perceptibly in the past 6 months, just as the market itself, after a falloff in May, began to give us a little relief for a moment on the registration activity. By the same token, there

is more activity under chapter X and a substantial number of companies have filed.

Five positions for our administrative area to support our program offices on a current basis. That is the type of work such as records and services, personnel, and Mr. Donaty's office.

One position in each of the following offices because of accelerated enforcement and inspection programs; namely, one for the office of the secretary, one for the office of the hearing examiners because we are having so many cases, and one for the office of the General Counsel.

That completes our requests. The last 23 represents the 23 jobs abolished on the special study—a net of zero with respect to our central office.

OPERATION OF THE COMMISSION

Mr. OSTERTAG. Getting down to the basic responsibility of your Commission, you have a number of statutory provisions for which you are responsible. You are a Commission, yet you have a number of divisions within your organization dealing with such matters as investigations and enforcements. How do you, as a commission, operate? Do you, as individual Commissioners, have a definite responsibility of working separately and apart, or are all these decisions made jointly by the Commission as a body rather than by the examiner?

Mr. CARY. I believe, of all the commissions in the Government, we perhaps operate more as a commission, meeting usually from 11 in the morning until 1, and quite often 3 hours in the afternoon. We meet about 5 hours a day.

Mr. THOMAS. You meet every day? Not every 2 weeks?

Mr. CARY. Every day. I would say, on the average, we meet about 4 hours a day.

Mr. OSTERTAG. I know there are meetings, but what do you do at these meetings?

Mr. CARY. Perhaps the first thing we do, in the morning, is to clear the registrations which become effective with respect to new issues of securities. Those were immense, up until May, though they have dropped off recently.

Secondly, we have recommendations made by the staff with respect to new investigations which should be carried out, and those come up in the form of a very substantial memorandum. They might come from Mr. Stocking's office in Denver or Mr. Green's office in Atlanta. They would be sifted through the Division of Trading and Exchanges, which is Mr. Loomis' office, and then presented to us with, (a) the report of the regional office; and (b) the report of the Trading and Exchanges Division. Then we pass on whether or not that particular investigation should be authorized.

Then, in addition, we might have a recommendation for a proceeding to be brought to revoke a broker-dealer license, or perhaps to ask for an injunction. All of those pass through us and we go over the memorandums.

Then we may have a problem presented by Mr. Conwill's office with respect to an investment company. There are quite a number of problems under that regulatory act.

Finally, in the afternoon, for instance, yesterday, we had a hearing with the counsel coming up on a major matter involving a particular investment company; or we may have a hearing on another matter.

If we do not have that, we are listening to a report, perhaps, brought up by Mr. Milton Cohen on behalf of a special study. Although, in a sense, this will be his report as director of the special study, it will also be our report. We want to be sure the positions they have taken are in conformity with our own, and we also want to be informed as to where he is going and what the problems are as he sees them.

Basically our day is represented by that kind of activity.

DECISIONS OF THE COMMISSION

Mr. OSTERTAG. Are all decisions made by the Commission? Do any of your Division heads have authority to resolve and make decisions?

Mr. CARY. We delegate, but do not delegate anything which we regard as substance. For example, if it is a revocation of a person's license to do business, obviously that is not delegated.

On the other hand, if, for example, it is a request for approval that somebody can continue in the business, and it is approved by the Trading and Exchange Division—and thus he is not adversely affected—in some of those areas we have authorized delegation. Wherever action may adversely affect individuals or firms, by and large, we do not delegate that and it comes up to us.

Mr. JONAS. You don't divide it out among yourselves?

Mr. CARY. No. Sometimes you rely on one of your colleagues who has gone into a particular matter more thoroughly than you have. In one case you may not have gone over the matter. We have all acted together as a corporate body and act and vote on each issue.

Mr. OSTERTAG. If you as a Commission sit each day for a large portion of the time, when do you have time to operate separately by way of familiarizing yourselves and assuming responsibilities as individual Commissioners?

Mr. CARY. We are proud of it. We are a terribly hardworking group. I would say most of us work at night a good deal of the time.

Mr. JONAS. You opened the door there.

Mr. CARY. I did not mention that, but it is true.

Mr. WYMAN. Do you have many attempts made to contact various Commissioners as to registration statements outside the formal channel, so to speak?

Mr. CARY. We do get calls and occasionally people visit us. We, of course, could not afford, in a process in which you have to take people as they line up, we could not afford to deviate and give one person accelerated treatment and not another. If something is called to our attention we look at it and see that we are not being arbitrary or things of that kind.

Mr. WYMAN. I did not mean that. I mean when somebody is particularly interested in a registration statement, in expediting it, do they attempt to contact the Commissioners outside their offices and ask them to give it consideration?

Mr. CARY. We get some of that but that is usually sifted down to the staff.

Mr. WORTHY. They are usually referred to me.

There is one point I would like to make. I think if this group saw a copy of the Commission's daily calendar which is distributed to the various division heads at the end of each day, you could appreciate the amount of time and the magnitude of the work done by the Commission itself.

SELF-REGULATION WITHIN THE SECURITIES INDUSTRY

Mr. OSTERTAG. Well, it seems to me that all agencies of Government are growing and growing in size and I suppose you might say in responsibilities. Do you see, in the objectives and purposes and responsibilities of the Securities and Exchange Commission, an ever-increasing development in the country which requires more work, more responsibility, more effort, and a larger organization than you have had in the past?

Mr. CARY. I would have to be candid and say that I certainly feel, as the industry grows, we will grow too. I have made a strong plea for self-regulation. I do not think we can do the job of regulating the activities of everybody in the securities industry ourselves alone. I think we have to depend on organizations such as the exchanges and the National Association of Securities Dealers. I am trying now to urge the Investment Institute into the picture because they could work cooperatively with us, take some of the inspection workload from us, and I think do it responsibly and we would not have to grow as much as we otherwise might have to. I do not see the necessity for our ballooning in size, but I am telling these organizations that they themselves will have to expand, the self-regulatory bodies. I think that will help to solve the situation.

Mr. BOLAND. Have they indicated a willingness to do that?

Mr. CARY. I think the exchanges have shown some willingness to go ahead; so has the National Association of Securities Dealers. The Investment Institute is now, yesterday to be precise, talking about giving us some participation in the field of inspection. I think they have made a token suggestion that the Commission rejected because it was too small. That does not foreclose them from offering another suggestion that will be more substantial. We think they will help.

Mr. OSTERTAG. You mentioned exchanges as a means for self-policing?

Mr. CARY. Yes, sir.

Mr. OSTERTAG. At the same time you as a Commission find it necessary to police the exchanges, do you not?

Mr. CARY. That is true, sir. I do believe that that is the system under which we ought to operate. They cannot have totally unregulated self-regulation. I think we have to furnish some oversight. I was making a speech on this in Florida before the Investment Bankers Association and I said just as we are alleged to be an independent agency we have oversight from the Congress. I think we have to furnish some oversight to these organizations. We have to be sure they are being vigorous enough and effective enough. And, as you will recall, a year or so ago in regard to the American Stock Exchange, we

had to take a vigorous position and yet we maintained the theory of self-regulation. We published a report pointing out what was wrong and a new group reorganized the exchange, drafted a new constitution, they have a new president and a new system of operation, and it is working along satisfactorily. That is what I mean by cooperative self-regulation, namely, we have to furnish some oversight just as you furnish some oversight over us.

Mr. OSTERTAG. The statutory authority in your justifications starts out by saying:

> The Securities and Exchange Commission is an independent quasi-judicial agency.

I realize it is a quasi-judicial agency, but why is the word "independent" necessary to be descriptive of your organization?

Mr. CARY. That is a phrase applied to all the regulatory agencies. This is a quote from my speech in November. I said:

> We are called an independent regulatory agency but anybody who thinks we are completely independent hasn't been long in Washington.

That is on page 1 of that speech I made. I understand what you mean and you are quite correct in saying we do not have total independence.

Mr. THOMAS. I know one agency that the word "independent" can be applied to. That is the FDIC. Congress does not have anything to do with them. They do not furnish them money or anything.

Mr. JONAS. I had one general question, Mr. Chairman.

Mr. THOMAS. Go ahead, Mr. Jonas.

INCREASE IN BANKRUPTCY PROCEEDINGS

Mr. JONAS. How do you account for the increase in bankruptcy filings in a period of high prosperity?

Mr. CARY. Let me state roughly the areas in which there have been these principal reorganizations. As far as I know they have been in shell homes, in big real estate developments, and most recently in the chain-store specialty area, discount stores. Those have been the three areas I have seen the most of in the last 6 months.

As to shell homes, they had a tremendous wave of enthusiasm. I do not know enough about the industry to give you a reason as to why they have gotten into the trouble they have.

Do you have any views on that, Mr. Worthy?

Mr. WORTHY. No. We have had some registration statements by those particular concerns. I think one of the problems is probably overcapitalization and things of that kind.

Mr. MANUEL F. COHEN. Some have been subject to overexpansion and overestimation of public acceptance.

Mr. GREEN. I think one thing was they came out with one or two issues that sold well and then others wanted to get into it and many did not have real foundations to continue the job.

Mr. JONAS. Is there much substantial use of chapter XI?

Mr. CARY. There have been many applications in chapter XI. In some we have taken the position they should shift to chapter X because there were so many stockholders involved it required a trustee to look into why they got into trouble.

Mr. CONWILL. I think they start with chapter XI and want to stay with chapter XI as long as they can.

Mr. CARY. We file applications sometimes to have chapter XI dismissed and that would force them into chapter X.

SPECIAL STUDY OF SECURITIES MARKETS

Mr. EVINS. Mr. Chairman, I know you will be telling us about your Special Study of Securities Markets and that your report will be issued in due time, but I am interested in having a short report at this time. What have you discovered, what are your intentions, and what has developed?

Mr. CARY. Perhaps I could start off and then I think Mr. Milton Cohen could carry on in detail.

By the way, may I say this is going to be an extremly intensive study that will cover in the neighborhood of 1,500 or 2,000 pages. It will cover the securities markets as a whole; the exchanges and the over-the-counter market; the distribution of securities; investment advice and many other things. Where is it pushing us? What conclusions have we reached? The answer is, of course, that the recommendations have not come out yet. It will not until April 3, so the conclusion stage is just getting underway. We have done the planning. We have the facts and I think it is being put together already.

May I say it has already had certain beneficial results in some areas. I would like to point out a couple of them to you.

First of all, the past president of the Investment Bankers Association, Curtis Bingham, noticed the improvement in the supervision and training of salesmen. We think that is important. It involves the question of whether or not there should be some qualifications imposed on people entering the business; and, secondly, after they enter the business whether they are adequately trained and supervised, particularly in view of the fact so many brokerage firms have so many branch offices.

Secondly, we find that the self-regulatory organizations I have referred to, both the National Association of Securities Dealers and the New York Stock Exchange, have stepped up their enforcement procedures.

Third, the New York Stock Exchange has a program for spot-checking the quality of supervision of sales activities by brokerage firms. This will cover not only the main offices, which they have covered before, but the branch offices. They are getting into that for the first time. As a part of this work they will determine what steps the brokers and their agents take to investigate their customers. This is a growing emphasis, that only securities suitable to a customer's needs and circumstances be recommended to him.

SUPERVISION AND TRAINING OF BROKERS

Mr. THOMAS. Mr. Chairman, will you let me interrupt there for information?

You say you place great emphasis on the brokerage industry training to a better degree their salesmen and representatives. Are there any cases on record where a suit has been brought against a brokerage company for the acts of its agents who get on the telephone and for

example call Widow Jones, who they know has a little money, and they want her to buy some stock that they tell her will go up in 30 or 60 days? I imagine the agent was acting in good faith, but I understand he gets a very lucrative commission, perhaps he makes between $2,000 and $3,000 a month on commissions. I understand they get a lion's share of the commission. Are there cases on the books where the brokerage firm has been sued for reckless statements by the agents where customers have been misled?

Mr. CARY. I think Mr. Loomis or Mr. Cohen can speak to that.

Mr. THOMAS. Are there any cases like that?

Mr. LOOMIS. Yes.

Mr. THOMAS. Are not the companies liable for loose come-on statements?

Mr. LOOMIS. Yes. There have been several cases brought by investors. We hear of five or six a year brought by investors against brokerage firms for statements by salesmen. I think there is no question the brokerage firm is responsible for what the salesman says and can be held liable if the statements are fraudulent. The only difficulty has been to define what is fraudulent and what is not.

Mr. THOMAS. What attitude have the courts taken in that type of case?

Mr. LOOMIS. I think the courts have been more strict with the brokerage firms recently. It used to be if the salesman said, "This is a very good stock and it probably will go up," the courts would say that was merely his opinion and the brokerage firm was not liable, but lately the courts have said if there was not a substantial basis for the statement the brokerage firm is liable for it.

Mr. THOMAS. Suppose brokerage houses turn loose their salesmen to telephone the unsuspecting public, maybe a woman who has made a few investments, and make these solicitations? I do not mean they intentionally do any wrong but they want to make a sale. After all, the only people who will make money whether the stock goes up or down is the brokerage house. It looks to me there ought to be more supervision by the Commission over the activities of the brokerage houses themselves and the activities of their personnel.

It is a common practice, we all know, for a salesman to call his friends and say, "It looks like such-and-such would be a good buy today." The fellow has no more idea what he is talking about than a shoe salesman keeping stock on shoes; his opinion is worth that much, but the fact that he is telephoning from the brokerage house gives some authenticity to it and, everybody being human, it begs the question to say caveat emptor applies. I have thought one of the shortcomings of the Commission has been the need for some tightening up of your rules and regulations on that aspect. Of course, nobody realizes it more than the big brokerage houses.

Mr. CARY. This is part of the problem of the qualifications of persons entering the business and their supervision. We are thoroughly studying this area.

Mr. MILTON COHEN. We are taking a look at what passes as research in the brokerage firms and advising where it is possible to consider the securities business as a profession with obligations to customers as distinguished from merchandising, and what the self-regulatory bodies have done in this area and how that can be tightened up.

Mr. THOMAS. It is one thing for a customer to phone and ask for advice, but it is something else for the salesman to call the customer and make an unasked for recommendation and push a sale.

Mr. MILTON COHEN. We will have a chapter on selling practices.

Mr. THOMAS. It needs looking into. In the life insurance business if an agent goes out and sells a life insurance policy the first year's premium is the salesman's commission and after that it is divided up. Whether that is exactly right I cannot say, but it is some proportion. How is it worked in a brokerage office between the broker and the salesman?

Mr. MANUEL COHEN. Mr. Chairman, this is an area that has been of considerable difficulty to the Commission for some years, the development of the so-called boilerroom in which sales are made largely, if not entirely, over the telephone.

Mr. THOMAS. As to the boilerroom operator, certainly you do not have the slightest doubt, that is the extreme, but how about the middle ground where the nice salesman calls his customer, based perhaps on previous contact, without any fraud. He will say, "I think this is a good buy." What difference does it make if he is honest or not in his opinion? He knew good and well he did not know. He was expressing his desire and hope based on his judgment, but the fellow who took his advice lost his money.

Mr. OSTERTAG. Is it not a part of your responsibility or authority to prohibit or prevent misrepresentation and deceit? This is basic in your objective, is it not?

Mr. THOMAS. The question I posed does not involve that.

Mr. MANUEL COHEN. I might digress to say I will reread the words——

Mr. THOMAS. There is that "gray area" where the fellow gives you the unsolicited benefit of his good judgment and it turns out to be very bad judgment.

Mr. MANUEL COHEN. It is very gratifying to hear you say that, Mr. Chairman.

Mr. THOMAS. I realize you cannot put a diaper on John Public, but it is not like going down and buying a pair of shoes or a can of soup. Excuse me, Mr. Commissioner, go ahead.

Mr. MANUEL COHEN. The Commission has been trying to develop in its opinions the idea you describe of the burden the salesman and the brokerage firm have of fair dealing—they cannot make prognostications without a reasonable basis. We are also approaching the problem by rule. This is a slow process because we have to get the courts to agree that the standards we are trying to raise come within our authority generally in the antifraud area. I think you will find that in one of our next opinions.

Mr. MILTON COHEN. The more subtle problem of the boilerroom operation comes about in the branch offices, which have been phenomenal in the last few years.

Mr. THOMAS. They do not go in the expansion business for their health but for profit. It begs the question to say, "This is one of our new offices and we have not been able to educate our salesmen yet."

Mr. MILTON COHEN. That is right. There is quite a slippage between what goes on by way of research in the main office and what happens at the salesman level in the country.

Mr. JONAS. Is there much of that going on now?

Mr. CARY. We have spoken to this in connection with the authorization for the special study which we obtained from Congress. We found a very substantial amount of unsupervised growth of the branch offices, of lack of supervision. We had a case where they had a fellow from a health gym who took over and became the manager of a branch office of a brokerage firm. When you reach that stage where the frenzy of purchasing is quite clear and where they have not tightened the controls adequately, you have problems. This is not true of all firms, of course.

COMPENSATION OF SALESMEN

Mr. THOMAS. What is the the honored practice of the trade with reference to payment of their employees? Is it on a straight salary basis regardless of how many sales they make or are they paid purely on a commission basis and do they earn their living by the old act of selling? That makes a vast difference.

Mr. CARY. Yes. They are paid on the commission basis primarily.

Mr. LOOMIS. Some firms put their salesmen on a salary basis. But primarily they are paid on a commission basis.

Mr. MANUEL COHEN. In recent years some of the firms who placed their salesmen on a salary basis have been faced with losing them because they can get higher compensation elsewhere through commissions. They have tried to overcome this by providing fringe benefits.

Mr. MILTON COHEN. Another point is that the commission rates may be different for different kinds of securities. A salesman may be paid more for selling one kind of security rather than another. That goes to the matter of motivation for selling.

Mr. THOMAS. One further question. What regulation does the Commission maintain over a brokerage house that has an interest in the stock that it is selling?

Mr. CARY. That is one of the areas on which we are focusing in this special study because it does present problems when a firm begins to sell the securities in which they have a substantial inventory. For example, if a firm sends out a so-called market letter and recommends a particular security, should we not move toward a program of requiring a statement by the firm that it has an inventory in the security recommended?

UNDERWRITING AND MARKET STABILIZATION

Mr. THOMAS. Does this situation happen often, or happen at all: Here is an existing corporation that wants to do a little refinancing with nothing but the best motives in mind. It goes to a brokerage house and the brokerage house says, "We will finance this and we will take so many shares of stock for our fee or we will buy so many shares and we will guarantee to you if your stock goes below a certain figure we buy it in," thereby preventing the stock from going to a lower level than the agreed figure. Does that happen?

Mr. WORTHY. Only in the offering period, the stabilizing period.

Mr. CARY. Otherwise it would be manipulation.

Mr. THOMAS. What is manipulation? In this case, if the market would go below a certain figure they would buy it to prevent it from going lower.

Mr. CARY. We had a case the other day of a man who had underwritten an issue; he then found that the stock was going down rapidly and he began to buy it up. That was not pursuant to an agreement. He just chose to do it. The question came to us as to whether his capital was sufficient. In cases of that kind where they have been making those purchases voluntarily to hold the market up, I do not suppose he would be subject to a sanction on the ground of manipulation.

Mr. LOOMIS. Not if he buys voluntarily.

Mr. THOMAS. Suppose by contract he agrees to buy?

Mr. LOOMIS. I think it is very unusual to have a broker make a contract with an issuer that he will hold the price of stock up.

Mr. THOMAS. Do you have any regulation that prevents it?

Mr. LOOMIS. I would think by and large such a transaction, at least unless it was disclosed to everybody, which they never do——

Mr. THOMAS. In the registration you have it on the face?

Mr. LOOMIS. On a new offering the offerer will say he will stabilize the price. He usually does not contract to hold the price.

Mr. THOMAS. He will say for X number of shares, we will buy this many to stabilize the stock.

Mr. LOOMIS. That is not usually the way he does it, I do not think. He usually would not have an agreement with the company that he will buy the X number of shares to stabilize the stock. He stabilizes for his own benefit. Naturally if the market price goes below what he has to pay for them, he is in trouble, so for that purpose he stabilizes it.

Mr. THOMAS. He files with you a registration statement and what is your jurisdiction over that?

Mr. LOOMIS. The registration statement requires disclosure of what they propose to do.

Mr. THOMAS. All right. Suppose the registration statement shows he is going to sell this stock for $10 a share and he lists it where the world can see it. Say they have issued 10,000 shares and then buy 5,000 of them when the price reaches $7. Your jurisdiction does not permit you to say whether that stock is worth $10 a share, does it?

Mr. LOOMIS. No, sir.

Mr. THOMAS. It could be worth $1 a share, just so he makes a complete disclosure to you, and yet he has the brokerage house saying, "We will stabilize the market at $7."

Mr. WORTHY. We have not had that case yet.

Mr. THOMAS. I thought I read of one a year or so ago.

Mr. FLEISCHER. We had a case where a brokerage firm sold a security and said that within 6 months they would maintain it at a certain price and within 12 months they would maintain it at a higher price. The Commisson held that was a fraudulent practice.

Mr. THOMAS. It is not fraudulent if he tells everybody what he is going to do.

Mr. WORTHY. I doubt he said it in the registration statement.

Mr. THOMAS. He certainly is manipulating the market; it is giving him an unfair advantage; and certainly if there is any legitimate reason in the world for the Securities and Exchange Commission to step in and say this is unhealthy, that is a foremost example.

Mr. LOOMIS. We have not seen quite this case you describe. We do have rules that regulate stabilizing and, in essence, say you cannot stabilize above what the general public is paying. I would say in the case you describe it would be illegal.

Mr. THOMAS. What about your 6-month period you detailed where you permit the broker to stabilize the price?

Mr. LOOMIS. That is only during the short period where he is offering the issue.

Mr. THOMAS. Why should it not be 5 years?

Mr. LOOMIS. The basic argument is unless you allow this type of stabilizing the industry would grind to a halt. That may be an exaggeration but that argument was made in 1934 and recognized in the statute when it was passed and has been recognized ever since.

Mr. CARY. We have had a continuing debate over the so-called stabilizing rule.

Mr. THOMAS. Have you completed your statement, Mr. Chairman?

Mr. CARY. I have about completed it.

REGISTRATION STATEMENT ACTIVITY

Having highlighted the necessity for the increase in positions in 1964, I should like to present some current information on our registration statement activities, for which no additional positions are requested in 1964.

We believe that approximately 1,550 statements will be filed this fiscal year. This estimate represents the best judgment of the Commission at this time because of the unsettled state of the securities markets since the sharp downturn of last May.

On various economic assumptions, as many as 2,000 registration statements may be filed or conceivably as low as 1,300.

Mr. THOMAS. Your justifications make that very clear.

Mr. CARY. We had only 523 as of December 31, but there is talk that, at some point along the way, they will start flooding in. So we cannot make an accurate forecast. Nevertheless, we are making a forecast of 1,550 statements as our best judgment. At any time we may be confronted with a dramatic and sudden increase in filings. Therefore, to respond effectively to such an upsurge, the Commission cannot reduce its present complement in the Division of Corporation Finance. The personnel there are fully occupied this fiscal year in cuting down our existing backlog and pursuing stop-order and other administrative proceedings which are long overdue. If we did otherwise, the Commission might be faced with the same heavy and unrealistic backlog in 1964 as has existed in the last few years.

I think you might be interested in a reference to what we are doing when we do not have as many registration statements as we had been having until last May. The Division of Corporation Finance is just getting caught up and it is going over the 10–K annual reports and the other periodic reports; we have made an enormous inroad in those. At the same time, they are very active in the field of stop-order proceeding. About 8 months ago when I was before this committee, I said that stop-order proceedings might be a way to prevent some of these irresponsible filings from coming in. But, frankly, at that time when our filings of registration statements were at an all-time high, we did not have the manpower to do that work. We were just trying to get the statements out. Now for the first time we are going back over some of these registration statements and in certain cases we have had administrative proceedings.

Mr. THOMAS. That is a very, very fine statement and it is just what we expected from you.

Let us go to lunch now and get back here at 1:15.

AFTERNOON SESSION

Mr. THOMAS. Gentlemen, if there are no further general questions let us go through this budget. We have all looked it over pretty carefully, and certainly the chairman has made a very illuminating and helpful statement.

Insert the administrative statement in the record. There were many questions asked concerning it, so we shall insert pages 1, 2, and 3 in the record.

(The pages referred to follow:)

JUSTIFICATION FOR THE 1964 BUDGET ESTIMATE

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 associations 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.

Public Law 87–196 dated September 5, 1961, amended section 19 of the 1934 act so as to authorize and direct the Securities and Exchange Commission to conduct a study and investigation of the adequacy, for the protection of the investors, of the rules of national securities exchanges and national securities associations. The law requires also that the Commission report to the Congress on or before April 3, 1963, the results of its study and investigation, together with recommendations, including such recommendations for legislation as it deems advisable.

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 debtholders 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 of 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 nine 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.

SUMMARY FINANCIAL DATA

Mr. THOMAS. Let us insert the table numbered 4 in the record.

(The table referred to follows:)

Securities and Exchange Commission

Actual costs for 1962, program for 1963, changes for 1964, and estimate for 1964

(1) Division/office	Page No.	(2) Actual, 1962		(3) Program, 1963		(4) Changes for 1964			(5) Estimate for 1964	
		Positions	Aggregate of annual salaries	Positions	Aggregate of annual salaries [1]	Positions	Aggregate of annual salaries	Mandatory within-grade increases	Positions	Aggregate of annual salaries [1]
Executive offices	5	25	$261,792	37	$397,757			$4,865	37	$402,622
Office of the Secretary	7	9	61,569	9	66,145	1	$4,118	1,808	10	72,071
Office of Hearing Examiners	10	9	103,792	12	148,700	1	14,581	2,079	13	165,360
Office of Opinion Writing	13	14	125,466	15	148,348			3,182	15	151,530
Office of General Counsel	15	25	205,442	32	269,112	1	8,050	5,742	33	282,904
Office of Chief Accountant	20	10	103,190	11	120,765			3,037	11	123,802
Division of Corporation Finance:	23									
Office of the Director		6	55,266	8	79,830			2,267	8	82,097
Branches of Corporate Analysis and Examination (15)		206	1,608,077	205	1,769,633			51,521	205	1,821,154
Branch of Administrative Proceedings and Investigations		15	131,247	28	244,839			7,631	28	252,470
Branch of Filings and Reports		29	162,967	30	174,241			3,368	30	177,609
Office of Chief Accountant		5	57,948	8	89,170			2,183	8	91,353
Office of Chief Counsel		11	104,751	16	141,400			3,784	16	145,184
Branch of Small Issues		11	63,711	14	93,143			2,663	14	95,806
Office of Engineering		9	88,942	11	110,908			2,951	11	113,859
Subtotal		292	2,272,909	320	2,703,164			76,368	320	2,779,532
Division of Trading and Exchanges:	40									
Office of the Director		6	66,102	8	90,875			1,436	8	92,311
Office of Chief Counsel		6	62,816	12	134,661			624	12	135,285
Offices of Enforcement and Criminal Reference		62	457,185	83	653,206	2	9,152	12,835	85	675,193
Office of Regulation		41	267,944	53	365,189	3	13,728	5,345	56	384,262
Office of Economic Research		29	206,752	31	229,467	4	26,958	6,198	35	262,623
Subtotal		144	1,060,799	187	1,473,398	9	49,838	26,438	196	1,549,674
Division of Corporate Regulation:										
Office of the Director		7	72,342	10	113,340			1,727	10	115,067
Branches of Investment Company Regulation (4)		34	267,089	57	479,511	3	28,455	7,526	60	515,492
Branch of Public Utility Regulation		18	177,362	16	180,878			2,413	16	183,291
Office of Chief Counsel		12	102,648	12	106,498	3	20,676	3,057	15	130,231
Office of Research and Service Company Regulation		5	43,140	5	46,426			645	5	47,071
Subtotal		76	662,581	100	926,653	6	49,131	15,368	106	991,152
Special study of securities markets	71	61	518,617	[2] 23	197,441	(23)	(197,441)			

Office of Comptroller	79	24	140,798	26	157,084	2	9,152	2,722	28	168,958
Office of Personnel	81	13	91,085	14	102,982	1	4,576	3,015	15	110,573
Office of Records and Service	84	107	541,178	109	571,590	2	6,532	10,878	111	589,000
Subtotal, departmental		809	6,149,218	895	7,283,139		(51,463)	155,502	895	7,387,178
Regional offices:	86									
New York		193	1,400,782	215	1,604,218	21	148,206	38,884	236	1,791,308
Boston		22	174,969	24	201,512	4	28,726	5,261	28	235,499
Atlanta		27	218,109	34	287,751	2	16,100	6,590	36	310,441
Chicago		84	640,205	91	727,843	9	65,502	16,158	100	809,503
Fort Worth		31	228,094	34	265,013	2	12,626	5,055	36	282,694
Denver		45	337,356	50	404,253	3	20,676	8,320	53	433,249
San Francisco		49	401,390	55	457,105	6	41,352	7,609	61	506,066
Seattle		33	254,757	39	309,610	2	16,100	7,550	41	333,260
Washington, D.C		30	228,634	44	339,054	5	40,250	9,476	49	388,780
Subtotal, field		514.0	3,884,305	586	4,596,359	54	389,538	104,903	640	5,090,800
Personal services		1,323.0	10,033,523	1,481	11,879,498	54	338,075	260,405	1,535	12,477,978
Less: Adjustment for lapses		154.0	1,014,878	89	625,998	9	83,775	108,705	98	818,478
Net personal services		1,169.0	9,018,645	1,392	11,253,500	45	254,300	151,700	1,437	11,659,500
Adjustment for 1963 pay increase					−164,500		164,500			
Adjustment for 1964 pay increase							253,500			253,500
Positions other than permanent		11.4	77,026	13	65,000				13	65,000
Regular pay in excess of 52 weeks							90,000			90,000
Overtime and holiday pay			104,457		65,000					65,000
Cost of personal services		1,180.4	9,200,128	1,405	11,219,000	45	762,300	151,700	1,450	12,133,000
Other expenses:	104									
Personnel benefits	105		623,879		771,000		68,000			839,000
Travel and transportation of persons	106		433,167		525,000		77,000			602,000
Transportation of things	108		8,115		12,000					12,000
Communications and rentals	109		316,424		378,000		4,000			382,000
Printing and reproduction	110		55,042		69,000		(18,000)			51,000
Other services	111		307,495		130,000		75,000			205,000
Supplies and materials	112		155,063		120,000		5,500			125,500
Equipment	113		192,910		62,000		(11,500)			50,500
Subtotal, other expenses			2,092,095		2,067,000		200,000			2,267,000
Total expenses			11,292,223		13,286,000		962,300	151,700		14,400,000
Actual savings			120,277							
Total appropriation or estimate			11,412,500		13,286,000		$1,114,000			14,400,000

[1] Based on new rates of pay effective Oct. 14, 1962.

[2] Represents the difference between the 65 positions presently allocated to the special study and 42 positions to be transferred on or about Apr. 3, 1963 to the operating division and staff offices from the study. See p. 78 for distribution of the 42 positions.

Mr. THOMAS. Let us now turn to the back of the book.

Your table of organization shows positions, regional offices, and so forth. It is well worth looking over.

(Discussion held off the record.)

HEARING EXAMINERS

Mr. THOMAS. I note you have nine hearing examiners and four other people. In some of the agencies we run into 63 and 65 and they are divided about 44 examiners and the others clerical people. You have nine here.

Is there a heavy caseload on your hearing examiners now?

Mr. CARY. Very heavy, Mr. Chairman. We are hoping to have one additional hearing examiner because we just have to reduce our backlog.

DECISIONS MADE BY THE COMMISSION

Mr. THOMAS. When we get to your workload by divisions that will enlighten us. Mr. Ostertag went into this in a general way this morning.

What part of the overall decisions are made by your staff and what part made by the Commission itself after a matter is referred to them for final decision? Can you give us a general picture of this?

Mr. CARY. I would say that any decision which seriously affects——

Mr. THOMAS. That was your answer this morning. I am asking for a figure. Is it 50 percent?

Mr. CARY. Coming before the Commission itself and for final decision we get the bulk——

Mr. THOMAS. Is there some rule and percentage you can give us? You discussed this with Mr. Ostertag this morning regarding the types of cases. You made that situation very clear.

Mr. Boland, you will recall they stated they meet every day, not every 2 weeks.

Mr. CARY. Mr. Cohen, can you give us an idea?

Mr. MANUEL COHEN. So far as decisions are concerned which are written down, the Commission does that. None of those decisions are delegated to the staff.

So far as decisions with respect to the initiation of injunctive proceedings, investigations, administrative proceedings, the Commission makes the final decision in all of those areas.

I want to make it perfectly clear that, as you know, Mr. Chairman, all these matters are brought to the Commission by the staff.

The Commission also acts as an appellate tribunal in certain types of proceedings coming up from the National Association of Securities Dealers. There again the Commission makes the final decision.

However, there is a vast amount of administrative work, such as processing registration statements in the normal course——

Mr. THOMAS. How vast?

Mr. MANUEL COHEN. So far as the whole volume of the work of the Commission is concerned, the amount which is actually determined by the Commission as against the staff, I would say the Commission's effort is obviously much smaller——

Mr. THOMAS. 20 or 25 percent, 15 percent?

Mr. MANUEL COHEN. Fifteen, perhaps. That is just a rough guess, and I don't know whether it is very meaningful to you.

Mr. THOMAS. That helps us.
Mr. CARY. It is a very difficult answer to give.

OFFICE OF OPINION WRITING

Mr. OSTERTAG. Right at that point, Mr. Chairman, you have placed under your organizational setup the Office of Opinion Writing the work of your hearing examiners?
Mr. CARY. Yes, sir.
Mr. OSTERTAG. I take it that the Office of Opinion Writing renders opinions. Does that go directly to the Commission from the Office of Opinion Writing? Is that part of the basis leading up to the Commission's final actions?
Mr. CARY. That is correct in this area, sir—primarily in two areas. First, we have administrative hearings in which, for example, the question comes up regarding the revocation of a broker-dealer's license. In that kind of a case, when we have an actual hearing, a quasi-judicial hearing, the Opinion Writing Office sits with us and prepares a base for a decision, which we in many cases write ourselves finally, but in all cases which we review.
The amount of opinion work we have done this year has been larger than ever before, and there are some very large opinions which might take a couple of those men, at least one man, 3 or 4 months to do.
In the Prudential case it took considerable time. There it was substantially changed by us.
Mr. THOMAS. We realize it is tedious and important work. You are certainly bound by your own opinions and you have to be right.
Mr. OSTERTAG. That is legal.
Mr. CARY. Purely legal.
Mr. OSTERTAG. What is difficult for me to understand is this: You have your Office of the General Counsel, which is legal work and responsibility.
Mr. CARY. That is correct.

RELATION TO THE GENERAL COUNSEL

Mr. OSTERTAG. What is the difference between the General Counsel's Office and that of opinion writing? Is there a need for both?
Mr. CARY. The General Counsel is trying a case right now—a major case in which we took an action with respect to an investment company.
When the Commission is in the courts, in other words as a party in the courts, the General Counsel participates. That is the distinction.
Mr. OSTERTAG. Does the Office of Opinion Writing take over after the General Counsel is through?
Mr. CARY. In general, no. Let me explain it this way: Opinion Writing is working with us. It is an agent of ours in making decisions, administrative decisions which are argued on one side by the staff of the Commission and by private litigants on the other.
Secondly, if a case comes up from the National Association of Securities Dealers on appeal, that is also handled by the Office of Opinion Writing.
In general, however, the General Counsel's field is in litigation where the Commission, as such, is involved.

For example, if a case were appealed which we had decided, in a case of that kind it might well be that the General Counsel then would be representing us in the courts.

Mr. MANUEL COHEN. Under the Administrative Procedure Act, a separation of functions is required with regard to proceedings before the Commission. Frequently, the General Counsel also acts as adviser to the staff in the conduct of administrative proceedings, and by law, even if it were not otherwise a necessary thing to do, the General Counsel cannot advise with the Commission regarding these ultimate decisions. There is a complete separation of function.

The opinion-writing office is not involved in any way in the conduct of proceedings or in administrative work. Its personnel are really assistants to the Commission.

Mr. OSTERTAG. That is what I was trying to determine.

PERSONNEL IN THE OFFICE OF OPINION WRITING

Mr. JONAS. How can you get a competent opinion writer for $8,000 a year?

Mr. CARY. That is a good question, and we have had a great turnover. It is a problem.

Mr. JONAS. You take young lawyers out of law school?

Mr. CARY. Recently we got two young men who had been in private practice, and who decided they liked this kind of work. They like writing. They like that kind of analysis. We have been very fortunate.

Mr. THOMAS. The Civil Service Commission is not that tight on you, regarding grades, are they?

Mr. JONAS. They have 12 and they pay the 12 only $100,000.

Mr. CARY. That includes secretaries as well.

M. OSTERTAG. You have one Director and two Associate Directors?

Mr. CARY. One associate and one assistant.

Mr. OSTERTAG. Grades 16 and 15.

Mr. CARY. Yes, sir. The intermediate persons working for the Director, Associate Director, and Assistant Director might be up to 12. Some may be 11's.

Mr. DONATY. $100,000 represents two grade 13's, two grade 12's, three grade 11's, two grade 9's, and three secretarial below grade 8. From 9 to 13 are all attorneys.

Mr. JONAS. How many is that?

Mr. DONATY. Nine.

Mr. CARY. Plus the Director?

Mr. DONATY. Nine plus the three secretarial gives you the 12.

Mr. JONAS. You have only about nine people writing opinions?

Mr. DONATY. Nine professional and three secretarial as well as the Director, Associate and Assistant Directors.

Mr. WHITNEY. In addition, each Commissioner has a legal assistant who helps him personally in his review of the opinions which come out of the opinion-writing office. They are all 13's, I believe.

REGIONAL OFFICES

Mr. THOMAS. Look at the regional offices. You have nine. New York is the big one.

How about Chicago?

Mr. CARY. Chicago is the next largest one.

(Discussion held off the record.)

Mr. THOMAS. San Francisco has 61.

What is the jurisdiction of the Washington office?

Mr. CARY. Washington covers the District which has been very active, plus Maryland, Delaware, Virginia, and Pennsylvania.

Mr. THOMAS. What about West Virginia?

Mr. CARY. And West Virginia.

SUMMARY OF INCREASES REQUESTED FOR 1964

Mr. THOMAS. Let us put 4–A in the record.

(The page referred to follows:)

Summary of additional funds requested for fiscal 1964

	Positions	Funds	
FISCAL 1963			
Appropriation for fiscal 1963	1,481	$12,800,000	
Proposed supplemental—pay increase and related costs		486,000	
Total available fiscal 1963	1,481		$13,286,000
DECREASE, FISCAL 1964			
Cost of 65 positions and related expenses because of the termination (April 3, 1963) of the Special Study of Securities Markets—9 months cost to the special study in 1963	(65)	(537,500)	
Less: Cost of 42 positions and related expenses to be transferred to the operating division and staff offices from the special study, 9 months cost to Divisions and Offices in 1964	42	389,500	
Net decrease, fiscal 1964	(23)		(148,000)
INCREASES, FISCAL 1964			
Program increases, additional positions and related expenses	77	610,300	
Salary step increases		151,700	
Cost of pay increases in 1964 over 1963		500,000	
Net increase for fiscal 1964	54		1,262,000
Total requested appropriation for fiscal 1964	1,535		14,400,000

Mr. THOMAS. You show a net increase of 54 positions. You are seeking $14,400,000, an increase of about 77 positions in fact.

You have done an outstanding job. You have an increase of about 65 people to start with?

Mr. CARY. That is right.

Mr. THOMAS. We are anxious to see that final report, Judge.

Mr. MILTON COHEN. So am I, sir.

SUPPLEMENTAL APPROPRIATION—PAY INCREASE

Mr. THOMAS. What deficiencies do you have pending? Have any cleared the Bureau of the Budget yet?

Mr. DONATY. We have a proposed supplemental of $486,000. I understand that comes up in a combined form.

Mr. THOMAS. Is that the only one you have?

Mr. DONATY. We have no other.

Mr. THOMAS. What did the Pay Act cost you last year?

Mr. DONATY. For this year $486,000, of which $31,000 was for personnel benefits, retirement, and so forth, and $455,000 for personal services.

Mr. THOMAS. The pay increase shows $500,000.

Mr. DONATY. There will be another pay increase effective January 5 of next year.

Mr. THOMAS. That will cost you $500,000, in addition to the $486,000 for this year?

Mr. DONATY. That is right. There are two separate increases.

ABSORPTION OF ADDITIONAL COSTS IN 1963

Mr. OSTERTAG. Did you absorb any of the additional costs or pay increase during fiscal 1963?

Mr. DONATY. We did absorb $200,000 for the continuation of the special study and the $100,000 for the additional 42 jobs this year.

Mr. OSTERTAG. I am referring to the pay increase.

Mr. DONATY. We could not absorb any funds on the pay increase. I take that back—there was $8,500 for postal increase and wage board.

Mr. THOMAS. Judge Cohen got money by virtue of the fact the supplemental didn't go through, so he will absorb about $200,000.

Mr. DONATY. We could not absorb any of the pay increase because we had to provide funds for the special study for an additional 3 months.

Mr. CARY. You may recall the $500,000 went through both the House and Senate. It was in the last supplemental.

EXECUTIVE OFFICES

Mr. THOMAS. Let us insert page 5 in the record.

(The page referred to follows:)

EXECUTIVE OFFICES

FUNCTIONAL STATEMENT

The members of the Commission are responsible for the administration and enforcement of the Federal securities laws, the primary provisions of which have been outlined in pages 1 to 3 of the introduction.

Justification

Fiscal year	Cost	Average employment
1963	$311,000	29.0
Increase	80,800	6.5
1964	391,800	35.5

For 1964, no additional positions are requested for the executive offices. The amount requested for these offices in fiscal year 1964 will provide for the five Commissioners, legal assistants, secretaries, and a program management staff.

The net increase of $80,800 in 1964 over the 1963 represents the following items:

(*a*) The sum of $70,500 for eight positions to be transferred to these offices upon termination of the special study of securities markets on April 3, 1963. These 8 positions as well as the other 34 positions distributed to the Divisions of Corporate Regulation and Trading and Exchanges and the Office of the General Counsel are required for effective execution of the recommendations of the special study. The amount of $70,500 is offset by the decrease of $444,000 as a result of the termination of that study.

(*b*) The sum of $3,500 for the cost of salary step increases.

(*c*) The sum of $6,800 for the cost of pay increases effective January 5, 1964.

OFFICE OF HEARING EXAMINERS

Mr. THOMAS. Insert pages 10 and 11 in the record.

(The pages referred to 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 and held throughout the United States, as may be required. They administer oaths; subpena witnesses; take testimony; rule on the admissibility of evidence, offers of proof and other disputed matters; rule upon motions and procedural requests; and take all necessary precautions to protect the rights of all parties.

At the conclusion of the hearings, the hearing examiners prepare recommended decisions to the Commission, as required, for action based upon the evidence in the record, the arguments and contentions made, and the application of law and regulations to the facts.

Although some cases are settled prior to the dates established for the hearings, the preliminary work must be performed on the assumption that all scheduled hearings will in fact, be held.

Justification

Fiscal year	Personal services	
	Cost	Average employment
1963	$138,400	11.9
Increase	19,800	1.0
1964	158,200	12.9

One additional hearing examiner will be required in 1964 over 1963 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 1963.

	Actual, 1962	Estimate, 1963	Estimate, 1964
Administrative proceedings:			
Pending, beginning of year	69	83	80
Authorized during year	116	130	140
Subtotal	185	213	220
Disposed of by Office of Hearing Examiners	102	133	150
Pending, end of year	83	80	70

The increase of $19,800 in 1964 represents $14,500 for the additional hearing examiner, $1,800 for salary step increases, and $3,500 for pay increases effective January 5, 1964.

OFFICE OF THE SECRETARY

Mr. THOMAS. The Secretary is busy all the time?

Mr. CARY. Yes, sir. I think he has had the busiest year last year that he has ever had.

Mr. THOMAS. Insert pages 7 and 8 in the record at this point.

(The pages referred to follow:)

OFFICE OF THE SECRETARY

FUNCTIONAL STATEMENT

The Secretary attends meetings of the Commission and is responsible for preparation and maintenance of the official minute record of its actions. He is custodian of the Commission's seal, with power to certify and authenticate documents reflecting official action of the Commission, and performs other and related duties. In addition, he is the chief information officer of the Commission to whom general inquiries of the public and press representatives are directed. An important phase of the latter function is the preparation, for the press, of a daily résumé or digest pertaining to (1) all Commission decisions and orders and (2) all financing and related proposals filed with the Commission.

The Secretary is responsible also for the scheduling of hearings in administrative proceedings, the assignment of hearing examiners, and other related actions under the rules of practice.

All official decisions, orders and rules adopted by, as well as all administrative actions of, the Commission, are recorded by and issued through this office. All public announcements of Commission action also are prepared by and/or released through this office.

Justification

Fiscal year	Personal services	
	Cost	Average employment
1963	$64,700	9.0
Increase	7,200	1.0
1964	71,900	10.0

For fiscal 1964, one additional clerical position ($4,100) is necessary to meet the increasing workload demands upon this Office due to the Commission's accelerated enforcement, regulatory and inspection programs and the additional duties of the Office involving hearing examiner assignments and related work.

The additional amount of $7,200 in 1964 includes also $1,900 for salary step increases and $1,200 for pay increases effective January 5, 1964.

ADDITIONAL POSITION—OFFICE OF THE SECRETARY

Mr. DONATY. On hearing examiners, we are asking for an additional hearing examiner.

Mr. THOMAS. That is right. You go up from 8 to 9.

Mr. CARY. The same for the Office of the Secretary.

Mr. THOMAS. You don't show an increase for the Secretary.

Mr. DONATY. Under the Office of the Secretary, page 9, there is a small column, 1964 increase, and at the bottom it shows one.

Mr. THOMAS. I don't see it on page 12.

Mr. DONATY. On page 12 it shows 12, and then a small column shows a one, up to 13.

OFFICE OF OPINION WRITING

Mr. THOMAS. Insert the Opinion Writing Section in the record, pages 13 and 14.

(The pages referred to 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	Average employment
1963	$144,000	14.5
Increase	6,400	
1964	150,400	14.5

For fiscal 1964, no additional positions are requested for this Office. The increase of $6,400 in 1964 includes $3,000 for salary step increases as well as $3,400 for pay increases effective January 5, 1964.

During fiscal 1962, this Office prepared drafts for the Commission's use in disposing of 164 matters of an adjudicatory nature. It is expected that the Office will dispose of 180 matters in 1963 and approximately the same number in 1964.

Personal services data sheet, Office of Opinion Writing

Title and grade	Program, 1963		1964 increase	Estimate, 1964	
	Number	Annual salary		Number	Annual salary
Director, GS-16	1.0	$18,013		1.0	$18,013
Associate Director, GS-15	1.0	16,016		1.0	16,494
Assistant Director, GS-15	1.0	16,016		1.0	16,494
Attorney:					
GS-13	2.0	24,149		2.0	24,877
GS-12	2.0	18,970		2.0	19,594
GS-11	3.0	24,150		3.0	24,420
GS-9	2.0	13,354		2.0	13,812
Various, GS-8 and under	3.0	17,680		3.0	17,826
Total permanent	15.0	148,348		15.0	151,530
Less lapse	.5	4,348		.5	1,130
Average employment and cost	14.5	144,000		14.5	150,400

SUPERGRADES

Mr. THOMAS. You folks have not done badly with Judge Irons in the Civil Service Commission.

Mr. CARY. On supergrades? We have applied for an additional number.

Mr. THOMAS. How many do you have?

Mr. DONATY. We have 3 grade 18, 5 grade 17, and 11 grade 16, or a total of 19 supergrades.

Mr. OSTERTAG. Do you have them now?

Mr. DONATY. Yes, sir.

Mr. THOMAS. How many 14's and 15's?

Mr. DONATY. Grade 15, we have 56. Grade 14 we have 73.

Mr. THOMAS. How do you rate your regional offices?

Mr. CARY. Unfortunately at the present time most of them are GS–15. That is the major point——

Mr. THOMAS. I thought they were promoted to 16 last year?

Mr. CARY. I tried but did not succeed.

Mr. THOMAS. What did they say?

Mr. CARY. First they concluded that the job didn't warrant it. Then we have rewritten the job descriptions to conform to their actual duties, and they agree the job warrants a GS–16, but they have not yet given us that many slots.

We have pressed it, but——

Mr. THOMAS. None of the offices got 16?

Mr. CARY. New York is 17, Chicago is 16, but that is all.

Mr. THOMAS. You need seven more?

Mr. CARY. That is correct. We have made strong protests. In fact, I have been over to see John Macy on this very question.

Mr. THOMAS. What does he say?

Mr. CARY. I think he is favorable in spirit, but he has not yet made available the number of slots for that purpose. We are pressing at the present time, and we have not yet received their final OK of this new list of supergrades.

Mr. THOMAS. Where is the General Counsel?

Mr. DONATY. Grade 18.

Mr. CARY. That just went up.

Mr. THOMAS. How long has he been with you?

Mr. CARY. About 1 year. Right now he is in Minneapolis handling a case.

OFFICE OF THE GENERAL COUNSEL

Mr. THOMAS. Insert pages 15 through 18 in the record.

(The pages referred to 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	Average employment
1963	$245,000	29.0
Increase	30,900	2.5
1964	275,900	31.5

For fiscal 1964, one additional attorney will be required as a direct result of the continued expansion of the Commission's overall activities, as well as the increasing volume, complexity and duration of civil and appellate litigation in which the Commission is involved.

The net increase of $30,900 represents the following items:

(*a*) The sum of $14,500 for three positions to be transferred to this Office upon termination of the Special Study of Securities Markets on April 3, 1963. The amount of $14,500 is offset by the decrease of $444,000 as a result of the termination of that study.

(*b*) The amount of $7,500 for the additional attorney position in 1964.

(*c*) The sum of $3,000 for the cost of salary step increases as well as $5,900 for pay increases effective January 5, 1964.

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 1962, the Commission filed 89 suits for injunctions in the U.S. District Courts. In addition, there were pending 14 appeals involving petitions for review of Commission orders. There were also pending 17 amicus curiae proceedings in which the Commission participated, 11 appeals in reorganization matters, and 15 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 Exchanges as part of its enforcement activities, the General Counsel still retains ultimate responsibility for all criminal matters referred to the Department of Justice.

During fiscal 1962, the General Counsel referred to the Department of Justice 64 criminal reference reports. The scope and complexity of these criminal matters is significantly increasing.

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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 1962, comments were requested by the congressional committees or which were referred by the Bureau of the Budget on 44 legislative proposals.

Following submission of the report(s) to the Congress and termination of the special study of securities markets on April 3, 1963, it is anticipated that the personnel of this Office will be engaged in resolving numerous problems relating to proposed legislation and rulemaking.

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 problems 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.

Mr. THOMAS. What is the number of lawyers in his shop?

Mr. DONATY. About 20, sir.

Mr. THOMAS. Right now he has about 32?

Mr. DONATY. He has 32.

TOTAL VACANT POSITIONS

Mr. THOMAS. How many unfilled jobs do you have throughout the agency now?

Mr. DONATY. As of December 31, we had 80 vacancies.

Mr. THOMAS. Out of the 1,481 positions you had 80 vacancies? About 6 percent.

Mr. DONATY. Of those 80 vacancies, 27 have been committed to come on board in January and early February. In fact, a week ago last Monday, 14 of the 27 came in between the period January 1 and January 15. In essence, I would say we would have 80 less 27, or about 53.

Mr. THOMAS. Why did you wait this long if you needed these new employees so badly?

Mr. CARY. One, we are trying to get the best people we can.

Mr. THOMAS. That is true with all of us.

Mr. OSTERTAG. Do you have a figure as to man-years in vacancies?

Mr. DONATY. All I can say——

Mr. OSTERTAG. Positions.

Mr. THOMAS. He gave a figure of 80.

Mr. OSTERTAG. Is that the average throughout the year? Actually having so many vacancies as of a given month is one thing, but what has been the average number of vacancies throughout the year?

Mr. DONATY. Of those 80 vacancies approximately 20 were vacant 2 months. In other words, there was a turnover through retirements, death, resignation, transfer, and so on.

I wish to point out that of the 80 vacancies on December 31, we had named actions for people to come in of 27, leaving 53 vacancies as of today.

As Chairman Cary indicated——

Mr. THOMAS. Give Mr. Ostertag a horseback opinion. Throughout the year what would be the man-hour vacancies? Is it 5 percent, 3 percent?

Mr. DONATY. Approximately 5 to 6 percent.

Mr. THOMAS. Out of 1,481 appropriated positions 5 percent would mean about 70 jobs.

Mr. CARY. Last year when we came before this very committee we had a problem of filling some vacancies that Congressman Thomas brought sharply to our attention. The facts were that it was hard to get investigators. That was at a time when the market was at a very favorable height and nobody wanted to leave a private firm.

I think the possibilities of getting more competent investigators from now on is increasing, just because they begin to realize there is a certain permanency of tenure in the Federal Government which they cannot get in a brokerage firm which expands and then contracts so violently.

DIVISION OF CORPORATION FINANCE

Mr. THOMAS. Insert the Division of Corporation Finance, pages 23, 24, 25, and 25A in the record.

(The pages referred to 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

Fiscal year	Personal services	
	Cost	Average employment
1963	$2,430,000	290
Increase	102,900	
1964	2,532,900	290

Summary of average employment increase, 1964 over 1963

Activity	1963	1964	Increase, 1964 over 1963
Registration statements and other filings	186.0	186.0	
Preliminary proxy statements	26.5	26.5	
Annual and periodic reports	28.0	28.0	
Stop order proceedings and other administrative actions	30.5	30.5	
Administration of regulations A and F	19.0	19.0	
Total	290.0	290.0	

For 1964, no additional positions are requested for the various activities of the Division. The additional amount of $102,900 for 1964 represents the cost of $47,300 for salary step increases as well as $55,600 for pay increases effective January 5, 1964.

The workload activity of the Division is subdivided into five major areas which is performed by the following branches of the Division of Corporation Finance Tabulations of workload relating to these activities are shown in subsequent pages. The Division has no control over the volume of filings, preliminary proxy statements, and reports submitted by corporations and individuals.

Activity	*Organization*
1. Registration statements and other filings	Branches of Corporate Analysis and Examination (15).
2. Preliminary proxy statements	
3. Annual and periodic reports	
4. Administrative proceedings and investigations	Branch of Administrative Proceedings and Investigation.
5. Administration of regulations A and F	Branch of Small Issues.

In view of existing market conditions, the workload data shown on the following pages represent the best forecasts of the Commission as to the number of registration statements to be filed in 1963 and 1964. Although we estimate approximately 1,550 and 2,150 registration statements will be filed in 1963 and 1964, it is conceivable that these estimates could be on the liberal side as compared with our too conservative attitude in the past 4 years—when we underestimated the number of registration statements to be filed from 20 to 40 percent below the number received each year. By the same token, our estimates of registration statements to be filed in 1963 and 1964 could be a continuance of our conservatism. Despite all our economic indexes, it is impossible for the Commission to make precise forecasts in the registration area.

Assuming our estimates of filings for 1963 and 1964 are liberal or are overestimated, we can process our filings at a faster rate and thus reduce the waiting period which has been a troublesome problem for several years. Further, manpower in the examining branches can be utilized in handling the growing number of pending stop-order proceedings and administrative actions anticipated. Because of our backlog of filings and reports we have never before been able to institute or prosecute many of the cases which warranted administrative action. Finally, personnel would also be utilized in reducing the number of unexamined annual and periodic reports which built up during the peak registration periods.

Assuming our forecasts are low, the Commission must be ready, must cut down its present backlog, and have sufficient personnel, to meet any unanticipated upsurge. Otherwise, we may be faced with the same heavy and unrealistic backlog as has existed in the past 4 years. As a responsible agency, the Commission must be in a position to meet another avalanche of filings with experienced personnel, thus avoiding serious delays which were a source of genuine concern to this agency and the financial community last spring and which can severely impair the flow of capital into the markets.

In brief, the manpower of the Division will be fully utilized within the five activities of the Division for fiscal 1963 and 1964.

Mr. THOMAS (reading).

The Division also enforces the financial reporting, proxy solicitation, and disclosure provisions applicable to various types of investment companies subject to the Investment Company Act of 1940.

We spent a lot of time on that this morning.

DIVISION OF TRADING AND EXCHANGES

Insert pages 40 and 41 in the record.
(The pages referred to follow:)

DIVISION OF TRADING AND EXCHANGES

FUNCTIONAL STATEMENT

The Division of Trading and Exchanges 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 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	Average employment
1963	$1,246,000	167
Increase	234,400	18
1964	1,480,400	185

Summary of average employment increase, 1964 over 1963

Activity	1963	1964	Increase, 1964 over 1963
1. Investigations and enforcement	86.0	90.0	4.0
2. Registration of broker-dealers and investment advisers	23.0	26.0	3.0
3. Regulation of exchanges	16.1	23.5	7.4
4. Market surveillance and stabilization	10.5	10.5	
5. Compilation and publication of statistics	31.4	35.0	3.6
Total	167.0	185.0	18.0

For 1964, nine additional positions are requested for the increased workload of the Division. The additional positions are distributed as follows:

(*a*) The addition of three examiners in the Branch of Regulation are required to maintain on a current basis the processing of new applications and amendments for registration of broker-dealers and investment advisers.

(*b*) 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.

(*c*) Four additional statisticians are required in the Branch of Economic Research to provide needed current statistical data relating to the stock market and registered broker-dealers for the use of the Commission on a continuing basis.

The net increase of $234,400 represents the following items:

(*a*) The sum of $145,000 for 21 positions to be transferred to this Division upon termination of the special study of securities markets on April 3, 1963. The amount of $145,000 is offset by the decrease of $444,000 as a result of the termination of that study.

(*b*) The sum of $13,500 for the cost of salary step increases.

(*c*) The sum of $43,000 for the cost of nine additional positions in 1964 over 1963.

(*d*) The sum of $32,900 for pay increases effective January 5, 1964.

DISTRIBUTION OF PERSONNEL

Mr. THOMAS. Page 40 tells what the Division of Trading and Exchanges is responsible for.

Taking activity No. 4, what part of the 77 employees will be assigned to the regional offices?

Mr. DONATY. Fifty-four, sir.

Mr. THOMAS. What will you do with the other 23?

Mr. DONATY. They are in the various central offices.

Mr. THOMAS. They are already here and you will keep them?

Mr. DONATY. No, sir.

Mr. CARY. They may not be the same people because people like Mr. Cohen will not stay with us, and therefore in some cases they will be new, and some of them will be——

Mr. THOMAS. He has 65 and keeps 23 of them.

Mr. DONATY. Basically they are about the same types of jobs.

Mr. THOMAS. Mr. Cohen already has trained them. Is he going to leave you with 23 of them or do you have to hire 23 new employees, and train them?

Mr. DONATY. We are going out in the market and train 23 people.

Mr. THOMAS. I don't think that is accurate, is it?

Mr. DONATY. On the 23 jobs there are 8 positions in the Special Study, top-notch jobs, like Mr. Cohen's and the Chief Counsel, plus 15 other types of jobs. The positions will be abolished April 3.

For next year we are going to employ, or we are requesting funds for, 23 in other areas.

Mr. THOMAS. Are they already on the payroll?

Mr. MILTON COHEN. They are taking 42 from me.

Mr. THOMAS. As of April 3 you have that many?

Mr. MILTON COHEN. That is right.

Mr. THOMAS. And 23 will stay?

Mr. BOLAND. He has 65 now.

Mr. MILTON COHEN. That is right, and 42 will stay after April 3. The other 23 will be disappearing but they will be replaced by 23 new people.

Mr. THOMAS. You will leave 23 trained people, then?

Mr. MILTON COHEN. Forty-two.

Mr. CARY. No, Mr. Chairman, it is the other way around. We are trying to keep as many as we possibly can. I have made every effort to do that because they are people who have had a very unusual experience, understand the whole securities markets, and we will have problems in appearing before congressional committees and explaining the analysis we have made and what we are going to do about it.

Mr. THOMAS. Look at page 40 briefly.

The Division of Trading and Exchanges is responsible for administering the provisions of the Securities Exchange Act of 1934—

that is all shown in the page we have inserted in the record.

In the field you jump from 167 to 185, an increase of 18. These are all in the field?

Mr. DONATY. In the Division of Trading and Exchanges.

Mr. THOMAS. That is right.

Mr. DONATY. Average employment increases by 18. The additional positions requested are shown on page 41, sir.

Mr. THOMAS. You state here the increase is 18.

Mr. DONATY. That is average employment, sir.

Mr. THOMAS. You have investigation and enforcement, three regulation of exchange, seven compilation and publication. It looks like it is 18. Is that correct?

Mr. LOOMIS. Eighteen increase in average employment but an increase of only nine positions over the authorized for 1963, and that is because some positions will be transferred from the Special Study to the Division on April 3, which affects the average employment.

I didn't have them all year but I hope to have them on April 3.

DIVISION OF CORPORATE REGULATION

Mr. THOMAS. Look at the Division of Corporate Regulation.

Did we get Judge Conwill in the record this morning?

Mr. CARY. He spoke on variable annuities.

Mr. THOMAS. Let us put pages 57 and 58 in the record.

(The pages referred to 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	Average employment
1963	$806,300	88.0
Increase	140,100	13.0
1964	946,400	101.0

Summary of average employment increase—1964 over 1963

Activity	Estimate 1963	Estimate 1964	Increase 1964 over 1963
1. Regulation of investment companies	46.5	55.0	8.5
2. Investment company inspections	5.3	7.0	1.7
3. Reorganization proceedings	11.4	14.2	2.8
4. Regulation of public utilities	19.8	19.8	
5. Regulation of service companies	5.0	5.0	
Total	88.0	101.0	13.0

For fiscal year 1964, six additional positions are requested for the following activities of the Division.

1. The addition of three financial analyst positions is required to meet the anticipated increased workload of applications, filings and reports as well as developing and analyzing data toward an extensive legislative and rulemaking program.

2. The addition of three positions (one attorney, on financial analyst, and one stenographer) is required to meet the anticipated increased workload in supervision of and participation in reorganizations under chapters X and XI of the Bankruptcy Act.

The net increase of $140,100 represents the following items:

(*a*) The sum of $66,000 for 10 positions to be transferred to this Division upon termination of the special study of securities markets on or about April 3, 1963. The amount of $66,000 is offset by the decrease of $444,000 as a result of the termination of that study.

(*b*) The sum of $5,800 for the cost of salary step increases.

(*c*) The sum of $48,000 for the cost of six additional positions in 1964 over 1963.

(*d*) The sum of $20,300 for pay increases effective January 5, 1964.

The workload activity of the Division is subdivided into five major activities: (1) Regulation of investment companies; (2) investment company inspections; (3) reorganization proceedings; (4) regulation of public utility holding companies and their subsidiaries; and (5) regulation of service companies.

REGULATION OF PUBLIC UTILITIES

Mr. THOMAS (reading):

The Division of Corporate Regulation assists the Commission in administering the regulatory provisions of the Investment Act of 1940 and the Public Utility Holding Company Act of 1935.

Do you still have that?

Mr. CARY. We have 16 people on that.

Mr. DONATY. In 1962 we had 18.

Mr. CARY. We are trying to cut that down.

Mr. THOMAS. In my book it looks like 21 or 22.

When is this going to be cut down?

Mr. CARY. We have had two major cases before us of very sizable proportion.

Mr. THOMAS. You don't need that many people there.

Mr. CARY. Registration work.

Mr. THOMAS. They can stand on one foot and do this work now.

I imagine these people are not engaged exclusively in just this activity. Don't you have them spread over other activities as well?

Mr. CONWILL. As a matter of fact, they are devoting exclusive time to this activity. It is not only the proceedings the Chairman referred to but as long as we have public utilities holdings there is work of a routine nature that has to be done.

For example, every time a public utility holding company proposes to do any financing it has to come to us, which means we have to analyze——

Mr. THOMAS. Do you take these 21 people and devote their time exclusively to this one subject?

Mr. CONWILL. Included in that 21 is the supervisor and assistant director, for example, who is in charge both of the Public Utility Holding Company Act work and chapter 10 organization work.

Mr. THOMAS. They must have a hard time keeping the two busy right there, the supervisor and assistant supervisor.

Mr. CARY. Section 10 is very active. The bulk of those are full time.

I have said the same thing you have, why can't we cut down this public utility group, because we are really handling a residual job in this area. I have no doubt of it.

Mr. THOMAS. It has been residual for about 10 or 12 years.

Mr. CARY. It is a residue we cannot absolutely get rid of without congressional authorization. That is the fact I faced up to.

Mr. THOMAS. It is not a question of getting rid of it. It involves allocation of people.

Is there not some featherbedding in there? You say you need additional people. It seems you can get more out of your people elsewhere rather than putting them here.

Mr. MILTON COHEN. When I was in the Public Utilities Division in the forties we had something like 200 people in that Division. That was in the active phase of the reorganization.

Mr. THOMAS. You were really bursting out at the seams then.

Mr. CONWILL. If you look at page 66 you will get an indication there is still work to be done in that area.

Mr. THOMAS. Our friend wants 66 in the record, so we shall insert that.

(The page referred to follows:)

4. Regulation of public utilities

	Actual, 1961	Estimate, 1963	Estimate, 1964
Number of applications relating to approval of exemptions, financing transactions, acquisitions of securities or other assets, intercompany loans, dividends, contributions, etc.:			
Pending at beginning of year	36	42	42
Filed during year	87	90	95
Subtotal	123	132	137
Applications reviewed during year	−81	−90	−95
Pending at end of year	42	42	42
Examination of periodic reports	624	600	600
Proxies reviewed for violations	51	55	55
Public and interpretive letters	502	525	525
Average employment	19.8	19.8	19.8

For this activity, no additional personnel are requested in fiscal 1964.

The Branch of Public Utility Regulation administers and enforces matters arising under the 1935 act, which regulates principally interstate public-utility holding-company systems engaged in the electric utility business or in the retail distribution of gas.

The workload of the Branch consists of the processing of applications, declarations, informal proposals, and supervisory reports relating to a broad range of

proposed corporate and financial transactions of the 17 registered holding company systems, which are expected to continue in operation indefinitely subject to the regulatory provisions of the act. These systems include 90 electric and gas utility subsidiaries, 39 nonutility subsidiaries, 13 holding companies, 6 holding and operating companies, and 13 inactive companies. The assets of these systems, less valuation reserves, aggregate $11.8 billion as of December 31, 1961.

During fiscal 1962, exclusive of notes sold to banks, registered holding-company systems and their subsidiaries sold $295 million of securities to the public to finance plant and equipment expenditures.

In addition to the workload shown on the prior page, there are unresolved problems relating to the integration and simplification standards of section 11. These unresolved problems involve complex questions of law, engineering, and financing. It is difficult to estimate the future trend of workload in respect of these matters because it is impossible to foretell the year in which a particular reorganization plan will be filed or a proceeding instituted by the Commission.

INVESTMENT COMPANY INSPECTIONS

Mr. THOMAS. Insert pages 62 and 63. We talked about this earlier. (The pages referred to follow:)

2. Investment company inspections

	Actual, 1962	Estimate, 1963	Estimate, 1964
A. Registered investment companies			
Number at beginning of year	663	727	757
Number of registrations during year	97	60	60
Subtotal	760	787	817
Number of registrations terminated during year	−33	−30	−60
Number of registrations, end of year	727	757	757
Less: Inactive companies	−60	−55	−55
Potential inspection workload	667	702	702
Investment company inspections	52	90	240
Approximate cycle of inspections (years)	12.8	7.8	3
B. Investigations relating to serious violations involving possible civil action:			
Pending at beginning of year		19	29
Opened during the year	24	25	40
Subtotal	24	44	69
Disposed of during the year	5	15	32
Pending at end of year	19	29	37
Average employment	1.9	5.3	7

For this activity, the Branch of Investment Company Inspections and Investigations requires no additional personnel in 1964 although 24 additional positions are requested for the field offices to achieve a 3-year inspection cycle in 1964. The 24 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 1963 by field personnel.

Inspections made in past years revealed some irregularities and indicate the need for substantial extension of this program for the protection of public shareholders. Examples of a few substantial irregularities follow:

1. Failure of directors to attend meetings or to otherwise perform their statutory duties: For example, the inspection of one fund, highly rated for its performance recently by leading financial periodicals, disclosed that the directors were completely indifferent to their fiduciary obligations. Their laxness resulted in a complete deterioration of the management and internal operations of the fund. The entire board was removed, each former director agreed not to be an officer, director, or other affiliate of an investment company for 5 years,

but the board was replaced with entirely independent members, and the principal of the investment adviser was placed on a stringent type of probation.

2. Failure to obtain approval of stockholders or the board of directors for an investment advisory contract: In this connection, a recent inspection of a prominent large fund disclosed that it had been operating with an invalid advisory agreement for over 2 years. The board of directors was reconstituted, and the new board entered into a settlement which resulted in investment adviser refunding $250,000 to the investment company.

REPORT ON SPECIAL STUDY

Mr. THOMAS. Judge Cohen is doing an outstanding job here. He will wind up the special study April 3?

Mr. MILTON COHEN. April 3; yes, sir.

Mr. THOMAS. We will be anxious to see your report. Some good things will come of it, I am sure. You are an outstanding man and the country is indebted to you for leaving your regular activity which is far more lucrative than your Government employment. You are rendering an outstanding service to the Government.

Mr. BOLAND. Is this the most comprehensive study ever made in this area?

Mr. MILTON COHEN. Yes, sir.

Mr. BOLAND. Are you happy with the work being done?

Mr. MILTON COHEN. We are working hard, covering a lot of ground, and I think it will be a fine report. We could have gone into this same area over a longer period of time with a larger staff and it would not have been excessive, I can assure you, but I think we shall cover it all right.

FORMAT FOR BUDGET JUSTIFICATION

Mr. THOMAS. Next year will you give us jobs rather than average employment or man-years?

Mr. BOLAND. Why do you give us the average employment?

Mr. DONATY. I show actual on personal services data sheet—the old green sheet.

The reason we do this is this: As you know, we must submit a budget to the Bureau of the Budget. Based on the Presidential allowance, we send it here and thus we try to simplify work by using the same document.

SPECIAL STUDY OF SECURITIES MARKET

Mr. BOLAND. Are there any questions on the special study?

Mr. JONAS. I have nothing.

Mr. BOLAND. Insert 71 through 78 in the record.

(The pages referred to follow:)

SPECIAL STUDY OF SECURITIES MARKETS

FUNCTIONAL STATEMENT

Under Public Law 87-196 dated September 5, 1961, the Commission is authorized and directed to make a study and investigation of the rules of national securities exchanges and national securities associations, including rules for the expulsion, suspension or disciplining of a member for conduct inconsistent with just and equitable principles of trade. The special study of securities markets is assisting the Commission in making that study and investigation.

Public Law 87–196 provides that (1) the Commission shall report to the Congress on or before January 3, 1963, the results of its study and investigation, together with its recommendations, including such recommendations for legislation as it deems advisable; (2) to carry out such study and investigation, there is authorized to be appropriated the sum of $750,000; and (3) employment of personnel may be made without regard to civil service laws, rules and regulations or to the Classification Act of 1949, as amended, except that no such rate shall exceed $18,500 per annum.

On July 27, 1962, Public Law 87–196 was amended by Public Law 87–561, which (1) extended the date of the report of the Commission from January 3 to April 3, 1963; and (2) authorized to be appropriated an additional $200,000 (from $750,000 to $950,000) to continue the study and investigation.

The special study group consists of 65 employees, of which 7 are stationed in the New York regional office reporting directly to the director of the study.

Justification

Fiscal year	Personal services	
	Cost	Average employment
1963	$444,000	50.0
Decrease	(444,000)	(50.0)
1964		

Summary of average employment, 1964 over 1963

Activity	1963	1964	Difference
1. Special study and investigation of national securities exchanges and national securities associations	50.0		(50.0)

During the past year, the Commission through its special study group has progressed in the following areas:

1. All 65 positions (attorneys, economists, statisticians, and other personnel) have been filled.

2. Definite study plans of inquiry relating both to the scope of the total study and the procedure for inquiry into particular subjects have been developed.

3. Implementation of the study plan has commenced in all areas with varying degrees of progress. The techniques of the investigation and study have been and will vary dependent upon circumstances. Examples of some techniques being used are: (1) interviewing witnesses, both informally and on the record; (2) observing and reviewing operating procedures on the exchanges and in brokerage firms; (3) discussing problems with responsible members of the securities industry; (4) utilizing questionnaires and the resultant accumulation and analysis of data; and (5) holding public hearings on certain subjects to afford opportunity for public presentation.

Although the language of the law is specific, it is clearly the intent of Congress that the study and investigation be comprehensive. The special study group is analyzing and studying a number of general areas, some of which are described briefly below:

1. The growth of the securities industry during the past decade in terms of issues, transactions, broker-dealer firms, branch offices, salesmen and public investors. The problems that result from such growth will be thoroughly examined. For example: Qualifications to engage in the securities business and recruitment, training, testing, surveillance and disciplining of persons engaged in the securities business.

2. The stock exchanges and their rules and practices, with particular attention to (1) the role of specialists, floor traders, and odd lot dealers; (2) the handling of block transactions; (3) the listing policies and controls over listed corporations; (4) the control of members' activities ;and (5) special problems relating to regional exchanges.

3. Public offerings of securities, with particular attention given to amounts and forms of underwriters' compensation, and underwriters' responsibility to the issuer and to his customers, "hot" issues, and the "after market."

4. The operation of the over-the-counter markets, the existing quotation systems, the actual pricing of transactions, the relationship between principal and agency transactions, and the significance and effect of sponsorship of over-the-counter securities.

5. The appropriateness of existing distinctions in the regulation of issuers with listed securities and unlisted securities, particularly with respect to publication of reports, solicitation of proxies, and insiders' transactions.

6. The security credit and margin requirements, including the inconsistencies of regulation as between listed and unlisted issues, the different treatment as between banks and broker-dealers, and unregulated sources of credit.

7. Selling techniques in the securities industry, with discussion of legal and business controls.

8. The nature and extent of responsibility and fiduciary obligation associated with investment advice, both free and paid; research activities in relation to recommendations, and recommendations in relation to selling.

9. The techniques of publicity and "financial public relations" to determine the various gradations between legitimate publicly and publicity used for manipulative purposes, in relationship to both outstanding securities and those in the process of distribution.

10. The financial responsibilities of broker-dealers in terms of the protection of customers' funds and securities, including an examination of alternate sources of protection of customers' funds; that is, minimum capital, capital ratios, or bonding.

11. Industry self-regulation through the registered exchanges and the National Association of Securities Dealers, and the adequacy of controls in areas not covered by industry self-regulation.

12. The staffs of the special study and the Division of Corporate Regulation are examining various problems in the mutual fund area, such as selling practices, industry practices with respect to the allocation of brokerage, use of advisory information by persons affiliated with mutual funds, and practices and procedures with respect to portfolio transactions.

Following submission of the report(s) to the Congress and termination of the special study on April 3, 1963, it is proposed to transfer 42 of the 65 employees from the study group to the Divisions of Trading and Exchanges and Corporate Regulation and to staff offices for the purpose of implementing the recommendations of the special study.

It is conceivable that subsequent to the transfer, this group, in part, will be used as a task force to execute the recommendations of the special study. Effective execution of the recommendations will entail the use of these experienced employees in several ways, such as (1) developing additional rules and regulations of the Commission and revising existing rules and forms; (2) preparing recommended legislation and supporting data for submission to the Congress; (3) taking such enforcement action as may be called for as a result of evidence developed in the study; and (4) effectuating such recommendations as may be made by the study for modifications in the rules, regulations, organizations, and practices of the exchanges and national securities associations, and reviewing rules, regulations, disciplinary proceedings, and other related matters proposed by such exchanges and associations as well as ascertaining periodically that these organizations are operating in the manner contemplated.

The distribution of the additional 42 positions for the period April 3 to June 30, 1963, is shown on page 78.

Personal services data sheet: Special study of securities markets

Title	Grade	Program, 1963 [1]		1964 increase	Estimate, 1964	
		Number	Annual salary		Number	Annual salary
Director	GG–18	1	$18,500	(1)		
Associate director	GG–17	1	18,013	(1)		
Chief counsel	GG–17	1	18,013	(1)		
Assistant director	GG–16	1	16,515	(1)		
Chief economist	GG–16	1	17,514	(1)		
Attorney	GG–15	2	29,162	(2)		
Financial analyst	GG–15	1	14,581	(1)		
Attorney	GG–14	2	28,246	(2)		
Economist	GG–14	1	12,854	(1)		
Research specialist	GG–14	2	26,124	(2)		
Statistician	GG–14	1	12,854	(1)		
Attorney	GG–13	5	59,490	(5)		
Business economist	GG–13	1	11,170	(1)		
Statistician	GG–13	1	12,251	(1)		
Attorney	GG–12	7	71,720	(7)		
Securities investigator	GG–12	2	19,282	(2)		
Attorney	GG–11	1	8,590	(1)		
Securities investigator	GG–11	1	8,320	(1)		
Administrative assistant	GG–9	1	7,134	(1)		
Financial economist	GG–9	1	7,592	(1)		
Attorney	GG–9	3	20,489	(3)		
Securities investigator	GG–9	3	21,175	(3)		
Various	GG–8 and under	25	133,056	(25)		
Total permanent		65	592,645	(65)		
Less: Lapse		15	148,645			
Average employment and cost		50	[2] 444,000			

[1] 42 of these 65 positions are shown in the personal services data sheets of the following organizations for 1963 and applicable costs for 3 months (Apr. 3 to June 30, 1963): 21 in the Division of Trading and Exchanges, 10 in the Division of Corporate Regulation, 8 in the Executive Offices, and 3 in the Office of the General Counsel—a net reduction of 23 positions in 1964.

[2] Represents 9 months' cost.

Allocation of positions from special study to staff offices and operating divisions, effective on or about Apr. 3, 1963

Position	Grade (GG)	Transfers to—effective on or about Apr. 3, 1963										Total positions to be abolished		Grand total (allocated to special study to Apr. 3, 1963		Distribution of personal services cost in fiscal 1963	
		Executive staff		Office of General Counsel		Division of Corporate Regulation		Division of Trading and Exchanges		Total to be transferred						Chargeable to the special study for 9 months for 65 positions	Chargeable to divisions and offices for 3 months for 42 positions
		Number	Annual salary rate	Number	Annual salary rate	Number	Annual salary rate	Number	Annual salary rate	Number	Annual salary rate	Number	Annual salary rate	Number	Annual salary rate		
Director	18											1	$18,500	1	$18,500	$13,875	
Associate Director	17											1	18,013	1	18,013	13,500	
Chief counsel	17											1	18,013	1	18,013	13,500	
Assistant Director	16											1	16,515	1	16,515	12,375	
Chief economist	16											1	17,514	1	17,514	13,125	
Attorney	15	2	$29,162							2	$29,162			2	29,162	21,850	$7,319
Financial analyst	15					1	$14,581			1	14,581			1	14,581	10,925	3,650
Attorney	14	1	14,123					1	$14,123	2	28,246			2	28,246	21,175	7,100
Economist	14											1	12,854	1	12,854	9,625	
Research specialist	14	1	13,270			1	12,854			2	26,124			2	26,124	19,575	6,500
Statistician	14											1	12,854	1	12,854	9,625	
Attorney	13	2	24,524					3	34,966	5	59,490			5	59,490	44,575	14,925
Business economist	13							1	11,170	1	11,170			1	11,170	8,375	2,800
Statistician	13							1	12,251	1	12,251			1	12,251	9,175	3,075
Attorney	12					2	19,594	5	52,126	7	71,720			7	71,720	53,750	17,975
Securities investigator	12					1	9,485	1	9,797	2	19,282			2	19,282	14,450	4,850
Attorney	11			1	$8,590					1	8,590			1	8,590	6,425	2,150
Securities investigator	11					1	8,320			1	8,320			1	8,320	6,225	2,100
Administrative assistant	9											1	7,134	1	7,134	5,350	
Financial economist	9							1	7,592	1	7,592			1	7,592	5,675	1,900
Attorney	9			1	6,677			1	6,906	2	13,583	1	6,906	3	20,489	15,350	3,425
Securities investigator	9					1	6,906	2	14,269	3	21,175			3	21,175	15,875	5,325
Secretary	8											1	6,926	1	6,926	5,175	
Financial analyst	7											1	5,554	1	5,554	4,150	
Business economist	7											1	5,554	1	5,554	4,150	
Secretary	6	2	12,979			2	11,794	5	30,139	9	54,912			9	54,912	41,150	13,775
Clerk	6											1	5,054	1	5,054	3,775	
Secretary	5					1	4,888			1	4,888	1	5,533	2	10,421	7,800	1,225
Clerk	5											1	4,576	1	4,576	3,425	
Financial analyst	5											4	18,304	4	18,304	13,725	
Statistical assistant	5											1	5,054	1	50,054	3,775	
Clerk-stenographer	4			1	4,118					1	4,118			1	4,118	3,075	1,050
Statistical clerk	4											1	4,118	1	4,118	3,075	
Clerk-typist	4											1	4,534	1	4,534	3,400	
Clerk-stenographer	3											1	3,931	1	3,931	2,950	
Total	------	8	94,058	3	19,385	10	88,422	21	193,339	42	395,204	23	197,441	65	592,645	444,000	99,204

Administrative and Management Functions

OFFICE OF THE COMPTROLLER

Mr. Boland. Next we have the Office of the Comptroller. Insert page 79 in the record.

(The page referred to 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

Fiscal year	Personal services	
	Cost	Average employment
1963	$152,200	25.5
Increase	13,900	2.0
1964	166,100	27.5

The increase of $13,900 in 1964 over 1963 represents the cost ($8,700) of two additional positions (payroll and leave technician and auditor, GS–5), salary step increases of $1,400 and $3,800 for pay increases effective January 5, 1964. The additional positions are required to meet the increasing workload demands of this Office due to the Commission's accelerated programs.

Function	Average employment	
	Estimate, 1963	Estimate, 1964
Budget activities, appropriation control, etc	4.8	4.8
Payroll operations and maintenance of leave records	6.6	7.6
Administrative auditing	2.5	3.5
Administrative accounting, collection and disposition of fees and revenue	1.8	1.8
Machine tabulation	9.8	9.8
Total	25.5	27.5

Mr. Boland. How many people do you have now?

Mr. Donaty. 26.

Mr. Boland. You are looking for two more?

Mr. Donaty. Yes, sir.

Mr. Boland. What is to be their function?

Mr. Donaty. One is for payroll and the other is for audit, two grade 5's.

OFFICE OF PERSONNEL

Mr. Boland. Insert pages 81, 82, and 83 in the record.

(The pages referred to follow:)

OFFICE OF PERSONNEL

FUNCTIONAL STATEMENT

This Office performs all the Commission's personnel management functions, including: (1) recruitment, placement, and separations; (2) job classification; (3) incentive awards program; (4) operation of a performance rating program; (5) maintenance of personnel files; (6) retirement and other counseling; (7) training and employee development; and (8) promotion and grievance policies.

Justification

Fiscal year	Personal services	
	Cost	Average employment
1963	$99,000	13.5
Increase	9,000	1.0
1964	108,000	14.5

The additional position (personnel clerk, GS–5) is required to meet the increased workload in the areas of recruitment, placement, and appointment. The additional position is within the ratio of 1 personnel position for every 135 employees.

In addition to the normal personnel functions, the Office has responsibilities in connection with reviews and reports to the Commission on matters arising out of the Commission's rules of conduct, including notices of appearance by former Commission employees and employees' securities transactions.

The increase of $9,000 in 1964 over 1963 represents the cost ($4.500) of the additional position, the sum of $2,000 for salary step increases, and $2,500 for pay increases effective January 5, 1964.

Function	Average employment	
	Estimate, 1963	Estimate, 1964
Personnel activities	9.7	10.7
Nonpersonnel work	2.8	2.8
Nurse	1.0	1.0
Total	13.5	14.5

Personal services data sheet: Office of Personnel

Title	Grade	Program, 1963		1964 increase	Estimate, 1964	
		Number	Annual salary		Number	Annual salary
Director of Personnel	GS–15	1.0	$14,581		1.0	$15,059
Assistant Director of Personnel	GS–14	1.0	12,854		1.0	13,270
Position classifier specialist	GS–12	1.0	9,485		1.0	9,797
Personnel management specialist	GS–12	1.0	9,485		1.0	9,797
Do	GS–11	1.0	8,050		1.0	8,320
Various	GS–8 and under	9.0	48,527	1	10.0	54,330
Total permanent		14.0	102,982	1	15.0	110,573
Less lapse		.5	3,982		.5	2,573
Average employment and cost		13.5	99,000		14.5	108,000

Mr. BOLAND. Insert pages 84 and 85 in the record.
(The pages referred to follow:)

OFFICE OF RECORDS AND SERVICE

FUNCTIONAL STATEMENT

This Office provides for office facilities and services, including (1) receipt, recording, and docketing of all material required to be filed with the Commission pursuant to the statutes it administers; (2) acquisition, storage, and distribution of supplies and equipment; (3) planning and operation of internal records management; (4) providing communication and messenger services; (5) utilization and disposal of all personal property of the Commission; (6) maintenance of library, publications, and public reference services; (7) alteration and repair of assigned space; and (8) maintenance of printing and duplicating services.

Justification

Fiscal year	Personal services	
	Cost	Average employment
1963	$543,100	104.0
Increase	27,300	2.0
1964	570,400	106.0

The increase of $27,300 in 1964 over 1963 represents the cost ($6,300) of two additional messenger positions, the cost ($7,700) of salary step increases and the cost ($13,300) of pay increases effective January 4, 1964. These additional positions are required to meet the increasing workload demands resulting from the Commission's accelerated programs.

Function	Average employment	
	Estimate 1963	Estimate 1964
Library	6.6	6.6
Duplicating and printing	17.0	17.0
Public reference and publications	11.0	11.0
Purchasing, space and records management	15.0	15.0
Docket, mail, files and certification	54.4	56.4
Total	104.0	106.0

Personal services data sheet: Office of Records and Service

Title	Grade	Program, 1963		1964 increase	Estimate, 1964	
		Number	Annual salary		Number	Annual salary
Records and Service Officer	GS-14	1	$12,854		1	$13,270
Assistant Records and Service Officer	GS-13	1	11,170		1	11,170
Deputy Service Officer	GS-11	1	9,110		1	9,381
Illustrator	GS-11	1	8,590		1	8,840
Librarian	GS-11	1	8,840		1	9,110
Chief of section	GS-9	1	6,906		1	7,134
Chief of unit	GS-9	3	20,717		3	21,404
Editorial specialist	GS-9	1	8,486		1	8,486
Illustrator	GS-9	1	6,906		1	7,134
Librarian	GS-9	1	8,029		1	8,029
Management analyst	GS-9	2	14,497		2	14,955
Various	GS-8 and under	95	455,485	2	97	470,087
Total permanent		109	571,590	2	111	589,000
Less lapse		5	28,490		5	18,600
Average employment and cost		104	543,100		106	570,400

Regional Offices

Mr. Boland. We went into the regional offices thoroughly. This is well set forth.

You show your workload in the successive pages, so let us insert the whole section, pages 86 through 103, in the record.

(The pages referred to 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 hearng 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	Average employment
1963	$4,350,300	550.1
Increase	590,500	48.0
1964	4,940,800	598.1

Summary of average employment increase, 1964 over 1963

Activity	1963	1964	Increase, 1964 over 1963
1. Executive direction	18.0	18.0	
2. Broker-dealer inspections	57.2	57.2	
3. Examination of annual financial reports from brokers and dealers	16.3	16.3	
4. Investigations and enforcement	340.5	364.5	24
5. Interpretation and information	15.0	18.0	3
6. Investment company inspections	9.4	30.4	21
7. Regulation A	59.8	59.8	
8. Chapter X, National Bankruptcy Act	26.0	26.0	
9. Investment adviser inspections	7.9	7.9	
Total, average employment	550.1	598.1	48

The 54 additional positions requested for the regional offices in 1964 over 1963 are required for the following purposes: (1) accelerate the conduct of investigations and enforcement actions including administrative, civil, and criminal proceedings; and (2) increase the number of inspections of investment companies which will result in an overall 3-year cycle as compared to the 8-year cycle estimated for 1963. Distribution of the additional positions by regional offices is shown on page 102. The 54 additional positions are distributed as follows:

(*a*) 27 positions for the investigations and enforcement program including administrative, civil and criminal proceedings.

(*b*) 24 positions for the investment company inspection program.

(*c*) 3 positions for the interpretation and information function in the New York regional office.

The increase of $590,500 in 1964 over 1963 includes the cost of the additional positions and salary step increases as well as approximately $102,000 for pay increases effective January 5, 1964.

1. REGIONAL EXECUTIVE DIRECTION

The regional administrators are responsible for the execution, wihin their geographic regions, of assigned programs under the various acts administered by the Commission, subject to the supervision and direction of the various operating officials of the Commission within their respective spheres of responsibilities. The aggregate average supervisory employment in the nine field offices from 1962 to 1964, inclusive, is 18 man-years for each year.

2. Broker-dealer inspections

	Actual, 1962	Estimate, 1963	Estimate, 1964
Total estimated number of registered broker-dealers	5,870	6,100	6,200
Less: Registered broker-dealers adequately inspected by securities exchanges	870	885	900
Potential workload	5,000	5,215	5,300
Broker-dealer inspections	1,515	1,670	1,670
Cycle of inspections—years	3.3	3.1	3.1
Average number of inspections per man-year	29	29	29
Average employment	52.3	57.2	57.2

For 1964, no additional positions are requested for this program. The inspection cycle of 3.1 years in 1963 will continue in 1964. The ultimate objective of the Commission is to inspect the registered brokers and dealers on an 18-month cycle.

The broker-dealer inspection program includes regular and periodic examinations of the books and records of registered brokers and dealers. The purpose of these inspections is to obtain compliance with the securities acts and with the rules and regulations promulgated by the Commission, and detect and prevent violations. The program represents preventive enforcement for the protection

of the public investors. These inspections frequently disclose situations, which, if not corrected, would result in losses to customers and which form the basis for investigative and enforcement action.

The following table shows the various types of violations disclosed as a result of the inspection program in 1959 to 1962, inclusive.

Type	Actual, 1959	Actual, 1960	Actual, 1961	Actual, 1962
Financial difficulties	180	139	236	204
Hypothecation rules	53	43	42	15
Unreasonable prices for securities purchases	255	194	240	188
Regulation T of the Federal Reserve Board	170	180	200	181
Secret profits	7	7	2	6
Confirmation and bookkeeping rules	1,081	967	1,000	889
Miscellaneous	324	371	399	315
Total, indicated violations	2,070	1,901	2,119	1,798
Total number of inspections	1,471	1,499	1,627	1,515

An inspection ordinarily includes, among other items, (1) a determination of the financial condition of the broker-dealer; (2) a review of pricing practices; (3) a review of the treatment of customer's funds and securities; and (4) a determination whether adequate disclosures are made to customers. The inspection process also determines whether the required books and records are adequate and currently maintained, and whether broker-dealers are conforming with the margin and other requirements of regulation T, as prescribed by the Federal Reserve Board. Our inspectors also check for sale of unregistered securities, use of improper sales literature or sales methods, and other fraudulent practices.

Many of the new brokers and dealers are inexperienced and unfamiliar with the responsibilities owed to their customers and with the rules of the Commission and established practices for the conduct of the business. A more serious problem is created by those who enter the securities field for the prime purpose of a quick profit, rather than the establishment of a sound business based upon just and equitable principles of trade in dealing with the investing public.

While an inspection may disclose violations of the statutes or the Commission's rules, formal action is not taken against every broker-dealer found to be in violation. In determining whether to institute action against a broker-dealer found as a result of an inspection to be in violation, consideration is given to the nature of the violation and to the effect it has upon the investing public. Inspections usually reveal a number of inadvertent violations, which are discovered before they become serious and before they jeopardize the rights of customers. In such situations, where no harm has come to the public, the matter is usually called to the attention of the registrant and arrangements made to correct the improper practices. Where, however, the violation appears to be willful and the public interest or the protection of investors is best served by instituting proceedings against the broker-dealer, such action is promptly taken.

3. Broker-dealer reports (X–17A–5)

	Actual, 1962	Estimate, 1963	Estimate, 1964
Number of reports	5,228	5,400	5,600
Average employment	15.1	16.3	16.3

The slight increase in workload in 1964 over 1963 will require no additional personnel.

Under the Commission's rule X–17A–5, every registered broker-dealer is required to file annually a report of its financial condition. These reports are examined and analyzed by the regional offices for the purpose of determining the registrant's compliance with the Commission's net capital rule. If the requirement is not met after a reasonable time, the Commission initiates appropriate administrative or court action for the protection of the public investor.

4. Investigations and enforcement

	Actual, 1962	Estimate, 1963	Estimate, 1964
1. Investigations including administrative, civil, and criminal proceedings:			
Pending at beginning of year	1,126	985	940
Opened during the year	510	615	660
Subtotal	1,636	1,600	1,600
Closed during the year	651	660	775
Pending at end of year	985	940	825
(a) Administrative proceedings to deny or revoke registrations of brokers and dealers or to expel from NASD:			
Pending at beginning of year	124	162	157
Opened during the year	95	120	120
Subtotal	219	282	277
Concluded during the year	57	125	125
Pending at end of year	162	157	152
(b) Administrative proceedings to deny or revoke registration of investment advisers:			
Pending at beginning of year	4	11	11
Opened during the year	7	25	25
Subtotal	11	36	36
Concluded during the year	0	25	25
Pending at end of year	11	11	11
(c) Injunction actions:			
Pending at beginning of year	96	105	100
Filed during the year	89	100	100
Subtotal	185	205	200
Disposed of during the year	80	105	110
Pending at end of year	105	100	90
(d) Criminal reference reports referred to the Department of Justice:			
Pending at beginning of year	100	130	130
Referred during the year	64	55	55
Subtotal	164	185	185
Disposed of during the year	34	55	60
Pending at end of year	130	130	125
Average employment	275.7	340.5	364.5

The addition of 27 positions (3 accountants, 7 attorneys, 1 financial analyst, 10 investigators and 6 stenographers) is required in order to accelerate the conduct of investigations including administrative, civil, and criminal proceedings.

Statutory authority to conduct investigations is contained in the several acts administered by the Commission. These investigations are conducted primarily by the regional offices for the purpose of determining whether civil or criminal proceedings should be brought based on violations of the acts.

The majority of investigations emanate from: (1) Complaints by the investing public; (2) the Commission's broker-dealer inspection program; (3) suspected fraud and malpractices in the solicitation, sale, and trading of securities; (4) surveillance of the securities markets; and (5) requests for field office assistance by the central office in connection with all aspects of the Commission's work. Other sources of information which are of great assistance to the Commission in carrying out its enforcement responsibilities are the national securities exchanges, brokerage firms, State and Canadian securities authorities, better business bureaus, the National Association of Securities Dealers, Inc., and various law enforcement agencies.

The special study of the securities markets has greatly increased the number of complaints filed by investors whose attention is attracted to the Commission's investigative and enforcement activity through publicity relating to the conduct of the study and the matters it has uncovered.

If an inquiry discloses that no violation has been committed or that a violation has occurred due to a misunderstanding or ignorance of the law, no further action is generally taken except that under the latter circumstance, the offender is informed of the violation and appropriate administrative measures are taken to procure immediate compliance and to prevent recurrence of violations.

If the matter cannot be disposed of satisfactorily after the inquiry, the Commission may utilize its power to issue subpenas requiring the appearance of witnesses to testify under oath and the furnishing of documents. Upon completion of such investigation, the regional office submits a recommendation that appropriate action be instituted by the Commission or that the investigation be closed. These reports are reviewed by the central office prior to presentation to the Commission for disposition. If it appears that criminal prosecution would be appropriate, the action of the Commission may take the form of a reference of the evidence to the Attorney General. In other cases, the Commission may authorize institution of a civil proceeding for injunctive relief or administrative proceedings against broker-dealers and investment advisers. The fraudulent sale of securities still remains a major problem for the Commission.

The criminal workload has increased substantially in the past few years. Such criminal work is far more demanding in both extent and depth than is required in most civil and administrative proceedings. Experience has shown the Commission that effective enforcement demands recourse not only to the latter remedies, but to criminal action as well if full effectiveness is to be achieved in halting the illegal activities of those violators who demonstrate an utter disregard for the law. As an illustration of this point, the Commission has referred 64 cases to the Department of Justice for the 12-month period ending June 30, 1962.

Another important factor to note in connection with criminal references to the Department of Justice is that the number of charges, and of defendants and coconspirators in the past year has increased significantly. For example: (1) The average number of defendants per case referred to the Department of Justice totaled about 6 or 7 as compared with 2 or 3 defendants in 1958; and (2) the average number of charges per case totaled about 21 as compared with 12 in 1958. Unquestionably, the current prosecutions are far more complex and difficult than those which the Commission faced in the past. In a number of recent cases, it has been necessary to return multiple indictments against numerous major defendants and coconspirators.

The Commission has been compelled to carry on a vigorous, firm, and aggressive enforcement program designed to afford protection to the investing public. It is our experience that our work becomes more and more intricate as the violators are forced to exercise greater ingenuity in order to avoid the impact of our investigations and proceedings.

Another factor to consider is that with the additional Federal judges, it can be assumed that the time lapse between the date of referral and the date of prosecution will be shortened. In view of the increase in number and scope of violations occurring within the jurisdiction of the southern district of New York, the U.S. attorney in New York has assigned top priority to these cases and has established a special unit composed of several assistant U.S. attorneys who have been assigned specifically to prosecute securities cases. As a result of this action, numerous employees of the staff in the New York and central offices must devote substantially all of their time to assist the U.S. attorney in his presentations to the grand jury and in the trial of these cases.

Emphasis upon developing criminal cases necessarily means that the Commission is utilizing its personnel for this purpose who would otherwise be available to devote their full attention to other urgent enforcement and regulatory problems. In addition to developing the evidence in these criminal cases, manpower must be utilized also in assisting U.S. attorneys in the grand jury action of the case and the prosecution thereof. For 1962, approximately 10 percent or 27 positions of the total manpower used under this program in the regional offices was devoted to criminal proceedings as compared with 8 percent or 20 positions in fiscal 1961. It is estimated that 12 percent or 40 positions of the manpower under this program will be used in 1963 as well as 1964.

5. Interpretation and information

Interpretations and opinions under all acts administered by the Commission, except the Public Utility Holding Company Act of 1935, Investment Company Act of 1940, and chapter X of the Bankruptcy Act are rendered by the interpretative attorneys in the regional offices to the public and to members of the staff of the

regional offices. In addition, they render interpretations and opinions of rules and regulations adopted by the Commission (including questions of general interpretations under regulation A) and practices and procedures followed in the administration of these statutes. Inquiries requesting such interpretations, both formal and informal, are received from prospective registrants, registered brokers and dealers, and the investing public.

For 1964, three additional positions (two attorneys and one stenographer) are requested for this program for the New York regional office because of the increased workload under this actiivty. The average employment for fiscal 1964 is estimated at 18 as compared with 15 in 1963.

6. Investment company inspection program

	Actual, 1962	Estimate, 1963	Estimate, 1964
Number of investment company inspections	52	90	240
Approximate cycle of inspections (years)	12.8	7.8	3.0
Average employment	4.3	9.4	30.4

For 1964, 24 additional positions (16 investment company inspectors, 2 attorneys, and 6 stenographers) are required to achieve a 3-year inspection cycle, which involves the inspection of 240 investment companies. As described in the justification (pp. 62 to 64) for the Division of Corporate Regulation, inspections made in past years revealed many irregularities and indicate the need for substantial extension of this program for the protection of public shareholders.

7. Regulation A program

	Actual 1962	Estimate 1963	Estimate 1964
A. Regulation A filings (Form 1-A):			
Pending beginning of year	289	227	50
Filed	1,065	850	1,100
Subtotal	1,354	1,077	1,150
Examined	1,127	1,027	1,100
Pending, end of year	227	50	50
Aggregate dollar amount of proposed offerings (millions)	$236	$185	$245
B. Regulation A suspension orders:			
Pending beginning of year	28	31	40
Instituted during year	52	65	65
Subtotal	80	96	105
Closed during year	49	56	75
Pending, end of year	31	40	30
Average employment	53.1	59.8	59.8

For 1964, no additional positions are required for this program in the regional offices.

Securities offered for public sale not in excess of $300,000 in 1 year must be qualified for exemption from the registration provisions of the Securities Act under the Commission's Regulation A. The staffs of the regional offices are required to examine and process the material filed under this regulation within 10 days after the filing is received. When the information disclosed appears to be inadequate, a suspension order or other action must be undertaken promptly. Many suspension cases result in investigations and administrative proceedings. In addition, the regional offices review the conduct of the offering and the sales methods used.

8. Chapter X—National Bankruptcy Act

Regional office	Number of cases in which regional offices participated in 1962	1962 average employment
New York	11	10.6
Chicago	29	9.3
San Francisco	6	3.8
Total	46	23.7

No additional positions are requested for this program in the regional offices for 1964. It is anticipated that 26 man-years will be expended by the regional offices in 1963 and 1964 for this program.

The functions of this program are performed by the regional offices, subject to supervision and review by the Division of Corporate Regulation. The chapter X cases originating in the Washington, D.C., and Atlanta, Ga., regions, are processed directly by the Division, because the irregularity of the workload in these two regions does not justify the permanent assignment of specialists to the regional offices serving such areas.

9. Investment adviser inspection program

	Actual, 1962	Estimate, 1963	Estimate, 1964
Total estimated number of registered investment advisers	1,836	1,600	1,650
Investment adviser inspections	149	200	200
Cycle of inspections—years	12.3	8.0	8.0
Average employment	3.3	7.9	7.9

For 1964, no additional positions are requested in the regional offices for this program. Section 204 of the Investment Advisers Act of 1940 was amended by the 86th Congress to provide for regular and periodic inspections of registered investment advisers. The program represents preventive enforcement for the protection of the public investors. For 1963 and 1964, an inspection cycle of 8 years is contemplated.

Heretofore, the act did not empower the Commission to require investment advisers to keep such books and records as the Commission may prescribe by rule and to inspect such books and records. Under the amended act, the Commission presently has this power. Previously, the Commission could not deny or revoke the registration of an investment adviser who had been convicted of embezzlement, fraudulent conversion, or misappropriation of funds of securities; or who had violated the mail fraud statute; or who had willfully violated the Federal securities laws. Under the act, as amended, these offenses are a basis for denial or revocation.

Previously, the Commission did not have the power to issue rules and regulations, which would prohibit fraudulent, deceptive, and manipulative practices by investment advisers as are fraudulent, deceptive, or manipulative.

Heretofore, the antifraud provision of the act did not apply to unregistered investment advisers. The act exempted from registration certain investment advisers, primarily those whose business is wholly intrastate or whose only clients are investment and insurance companies or those who have fewer than 15 clients and do not hold themselves out generally to the public as investment advisers. Under the act as amended, the fraud provisions are applicable to all investment advisers whether registered or not.

Summary of additional positions requested for regional offices for fiscal 1964—by program

Region	Investigations and enforcement		Investment company inspections		Total	
	Number	Annual salary rate	Number	Annual salary rate	Number	Annual salary rate
New York	11	[1] $78,128	10	$70,078	21	$148,206
Boston	1	8,050	3	20,676	4	28,726
Atlanta	1	8,050	1	8,050	2	16,100
Chicago	5	36,776	4	28,726	9	65,502
Fort Worth	2	12,626			2	12,626
Denver	3	20,676			3	20,676
San Francisco	3	20,676	3	20,676	6	41,352
Seattle	2	16,100			2	16,100
Washington, D.C.	2	16,100	3	24,150	5	40,250
Total	30	$217,182	24	$172,356	54	$389,538

[1] Includes 3 positions for the "Interpretations and information" activity.

Personal services data sheet: Regional offices

Title	Grade	Program, 1963		1964 increase	Estimate, 1964	
		Number	Annual salary		Number	Annual salary
Regional administrator	GS-17	1.0	$18,013		1.0	$18,512
Do	GS-16	1.0	18,013		1.0	18,013
Associate regional administrator	GS-16	1.0	16,016		1.0	16,515
Regional administrator	GS-15	7.0	112,589		7.0	113,545
Assistant regional administrator	GS-15	3.0	45,656		3.0	47,092
Attorney	GS-15	1.0	14,581		1.0	15,059
Assistant regional administrator	GS-14	9.0	120,783		9.0	123,716
Attorney	GS-14	4.0	51,832		4.0	53,517
Chief of branch	GS-14	8.0	110,467		8.0	113,130
Chief investigator	GS-14	1.0	13,707		1.0	14,123
Investigator	GS-14	1.0	14,976		1.0	14,976
Accountant	GS-13	5.0	57,284		5.0	58,718
Attorney	GS-13	24.0	285,920		24.0	292,510
Chief broker-dealer inspector	GS-13	1.0	11,170		1.0	11,523
Chief investigator	GS-13	6.0	72,425		6.0	73,175
Chief of branch	GS-13	1.0	11,170		1.0	11,523
Chief of section	GS-13	3.0	37,503		3.0	37,856
Broker-dealer inspector	GS-13	5.0	59,321		5.0	61,215
Financial analyst	GS-13	4.0	44,076		4.0	45,094
Mining engineer	GS-13	1.0	12,979		1.0	12,979
Investigator	GS-13	12.0	138,320		12.0	142,379
Accountant	GS-12	9.0	90,087		9.0	92,271
Attorney	GS-12	24.0	230,469		24.0	237,645
Broker-dealer inspector	GS-12	30.0	309,096		30.0	314,712
Investigator	GS-12	19.0	190,574		19.0	194,006
Accountant	GS-11	14.0	116,441	3	17.0	143,271
Attorney	GS-11	34.0	275,301	11	45.0	371,681
Investment adviser inspector	GS-11	1.0	8,050		1.0	8,320
Broker-dealer inspector	GS-11	22.0	186,972		22.0	191,752
Investment company inspector	GS-11	2.0	16,100	16	18.0	145,440
Financial analyst	GS-11	2.0	16,640	1	3.0	25,210
Mining engineer	GS-11	1.0	9,901		1.0	9,901
Investigator	GS-11	26.0	214,932	10	36.0	301,002
Administrative assistant	GS-11	1.0	8,050		1.0	8,320
Accountant	GS-9	14.0	96,889		14.0	99,633
Attorney	GS-9	49.0	329,003		49.0	339,992
Administrative assistant	GS-9	1.0	6,677		1.0	6,906
Broker-dealer inspector	GS-9	14.0	97,803		14.0	100,092
Financial analyst	GS-9	4.0	27,623		4.0	28,537
Investigator	GS-9	11.0	75,277		11.0	77,565
Investment company inspector	GS-9	2.0	13,354		2.0	13,812
Various	GS-8 and under.	207.0	1,010,319	13	220.0	1,085,562
Total permanent		586.0	4,596,359	54	640.0	5,090,800
Less: Lapse		35.9	246,059		41.9	150,000
Average employment and cost		550.1	4,350,300		598.1	4,940,800

Mr. BOLAND. Are there any questions regarding the regional offices?
(No response.)

OTHER OBJECTS OF EXPENSE

Mr. BOLAND. Then we have other expenses starting at page 104. You have an increase of $200,000. You will spend $2,267,000 in 1964, $200,000 more than in 1963.

Is this increase due to the new personnel you hope to bring aboard?

Mr. DONATY. Basically; yes, sir.

Mr. BOLAND. Insert page 104 in the record.

(The page referred to follows:)

OTHER EXPENSES

The sum of $2,267,000 is required in 1964 for costs other than salaries. These costs are itemized in the following tables:

Item of expense	Actual, 1962	Estimate, 1963	Estimate, 1964
Personnel benefits	$623,879	$771,000	$839,000
Travel and transportation of persons	433,167	525,000	602,000
Transportation of things	8,115	12,000	12,000
Communications and rental	316,424	378,000	382,000
Printing and reproduction	55,042	69,000	51,000
Other services	307,495	130,000	205,000
Supplies and materials	155,063	120,000	125,500
Equipment	192,910	62,000	50,500
Total	2,092,095	2,067,000	2,267,000

The overall increase of $200,000 for expenses other than personal services in 1964 represents generally normal office expenses for the additional personnel requested necessary to accomplish the increased program workload of the Commission.

TRAVEL AND TRANSPORTATION OF PERSONS

Mr. BOLAND. Travel and transportation of persons is up $77,000 in 1964. With regard to $63,000 is for additional attorneys and inspectors. Insert page 106 and page 107.

(The pages referred to follow:)

TRAVEL AND TRANSPORTATION OF PERSONS

The amount of $602,000 is required for travel expenses for 1964. This amount will provide for the payment of transportation expenses, rental of automobiles, subsistence, incidental expenses, and mileage for the use of privately owned automobiles for official travel of employees. The total amount includes also provision for the cost of transportation of dependents on change of duty station and compensation for witnesses. An itemization of these costs is shown in the following table:

	Actual, 1962	Estimate, 1963	Estimate, 1964
Transportation of persons	$157,298	$189,900	$219,000
Commercial rental of automobiles	3,315	4,000	5,000
Subsistence expenses	184,456	222,500	256,000
Incidental expenses	4,596	5,500	6,000
Mileage—use of private auto	37,357	45,000	52,000
Government motor pool rentals—cars	5,058	6,100	7,000
Transportation of dependents	1,853	2,000	2,000
Compensation of witnesses	39,234	50,000	55,000
Total	433,167	525,000	602,000

The increase of $77,000 in 1964 for travel is distributed as shown below. The cost of transportation, per diem, and incidental expenses of employees is estimated at $35 per day.

1. The sum of $63,600 is required for the additional attorneys, investigators, and inspectors of the regional offices relative to the increased workload of the following programs: (1) The investigations program including administrative, civil, and criminal proceedings; and (2) the investment company inspection program. It is estimated that 60 travel days will be required for each traveler.

2. The amount of $3,150 is required for one additional hearing examiner to preside over public and private hearings. It is estimated that 90 travel days will be required for the traveler.

3. The amount of $3,150 is required for one financial analyst and one attorney in the Division of Corporate Regulation for the purpose of providing assistance to regional offices in chapters X and XI proceedings and to perform the original work on all chapters X and XI cases in the Atlanta and Washington, D.C., regional areas. It is estimated that 45 travel days will be required for each traveler.

4. The amount of $2,100 is required for one attorney in the Office of the General Counsel for the purpose of conducting appellate litigation. It is estimated that 60 travel days will be required.

5. The sum of $5,000 is required for witness fees relating to the increased number of investigations to be conducted.

COMMUNICATIONS AND RENTAL

Mr. BOLAND. Communications and rental appears on page 109, an increase of $4,000. Insert page 109 in the record.

(The page referred to follows:)

COMMUNICATIONS AND RENTAL

The sum of $382,000 is required for communication services, rental of space, and equipment for 1964. The items carried under this classification are shown in the table appearing below:

Item	Actual, 1962	Estimate, 1963	Estimate, 1964
Telegraph service	$4,059	$4,500	$6,400
Telephone—local	110,111	119,000	127,600
Telephone—long distance	75,162	81,500	89,500
Teletype and ticker service	12,045	14,000	14,500
Payment of penalty mail	47,000	50,000	62,000
Rental of tabulating equipment	26,227	27,000	32,000
Rental of other equipment	3,788	12,000	20,000
Rental of space	38,032	70,000	30,000
Total	316,424	378,000	382,000

The net increase of $4,000 represents primarily adjustments to the following items:

1. An increase of $19,000 in telephone and telegraph services primarily for the additional personnel requested in this estimate.

2. A decrease of $40,000 for rental of space. The sum of $30,000 is required in 1964 to provide space for the additional 54 positions in the regional offices. Agencies are required to budget initially for the 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 will be made from the agency appropriation to an appropriation of the General Services Administration. Thereafter, the GSA will be responsible for obtaining funds for such additional space.

3. An increase of $25,000 to cover the additional cost of penalty mailings, and the rental of tabulating and other equipment.

PRINTING, REPRODUCTION, AND OTHER SERVICES

Mr. BOLAND. Printing and reproduction actually goes down, does it not?

Mr. DONATY. That is right.

Mr. BOLAND. It is well explained on page 111. Insert pages 110 and 111.

(The pages referred to follow:)

PRINTING AND REPRODUCTION

The following table shows the actual costs for 1962 and estimated costs for 1963 and 1964 for the several items of printing:

Description	Actual 1962	Estimate 1963	Estimate 1964
1. Reprints of rules and amendments, technical forms, etc	$10,475	$10,000	$10,000
2. Decisions and reports of the Commission		11,000	
3. Legal briefs, transcript of record, etc	7,885	7,000	7,000
4. The Commission's annual report to Congress	5,310	6,000	6,000
5. Administrative forms, letterheads, envelopes, standard forms, printed supplies, etc	9,280	9,000	9,000
6. Official summary of security transactions and holdings, and statistical bulletins (published monthly)	6,105	6,500	6,500
7. Photo duplication, binding, and reproduction	13,352	11,000	11,000
8. Copies of public bills, documents, etc	1,327	1,500	1,500
9. Reports issued by the Special Study of Securities Markets	1,308	7,000	
Total	55,042	69,000	51,000

OTHER SERVICES

The sum of $205,000 is required for the services described in the following table for fiscal 1964:

Item	Actual, 1962	Estimate, 1963	Estimate, 1964
Repairs to equipment	$15,261	$20,000	$20,000
Building alterations and moving expenses	74,946	25,000	10,000
Miscellaneous expenses	11,845	26,250	16,150
Contract stenographic reporting	165,524	50,000	150,000
Purchase of transcript	3,869	6,900	7,000
Background investigations	2,450	1,850	1,850
Investment company study	33,600		
Total	307,495	130,000	205,000

The increase of $75,000 in 1964 represents net changes to the following major items:

1. An increase of $100,000 for the stenographic reporting service. In 1963, it is anticipated that $50,000 will be required based on an unusually low bid by the contractor who expects that sales of transcript to the public will be substantial because of wide interest in the anticipated hearings to be conducted by the special study of securities markets, thus resulting in a lower cost of this service to the Commission. For 1964, the sum of $150,000 is required on the basis of an average cost of 65 cents per page for public and private hearings, and an average cost of $1 per page for investigations. These unit prices were applicable for 1962.

2. A decrease of $15,000 in minor building alterations and moving expenses.

3. A decrease of $10,100 due to completion of a tabulating project by the Bureau of the Census for the special study of securities markets.

4. A nominal increase of $100 for purchase of transcript.

STENOGRAPHIC REPORTING SERVICES

Mr. BOLAND. You spent $50,000 in the professional study in 1963?

Mr. DONATY. This was not the result of the special study. Actually, when we solicited bids for stenographic reporting, it was on the assumption there would be public hearings held by the special study in this fiscal year. As a result, the contractor submitted a low bid on the assumption he could make more income on the sales of the transcripts to the public. As a result, he gave us a low bid.

Mr. THOMAS. Why did they jump it to $150,000 this year, then?

Mr. DONATY. This is reverting back to what we had in 1962, when we spent $165,000.

Mr. THOMAS. How many bidders did you have?

Mr. DONATY. Four or five, sir.

Mr. BOLAND. You spent $165,000 in 1962, and $50,000 in 1963, and $150,000 in 1964.

Mr. DONATY. The reason we dropped in 1963 over 1962 was because the contractor assumed we were going to have public hearings, copies of which would be available to the public. By selling them he could give us a low bid, which he did.

(Discussion held off the record.)

Mr. DONATY. Of the $150,000 we are requesting next year this is based on unit prices we had last year in 1962.

Mr. THOMAS. How much a page?

Mr. DONATY. It averages 65 cents per page for public and private proceedings and approximately $1 for investigations. Incidentally, we had approximately 178,000 pages in fiscal 1962 at a cost of about $165,000.

Mr. JONAS. How do you select these reporters? Is it by competitive bids?

Mr. DONATY. Yes, sir.

Mr. JONAS. Strictly competitive?

Mr. DONATY. Yes, sir, we are forced to by regulation.

Mr. JONAS. You let it to the low bidder?

Mr. DONATY. Yes, sir.

Mr. JONAS. If he is competent?

Mr. DONATY. There are a number of factors—competency, financial ability, ability to carry out the contract.

Mr. JONAS. Do you always let it to the low bidder?

Mr. DONATY. We are required by law.

Mr. JONAS. You can throw out one as being incompetent?

Mr. DONATY. To the best of my recollection in the last 5 or 6 years I have been with the agency, we have not. My office looks over that bidding.

TRAVEL EXPENSE

Mr. WYMAN. On page 107 at the top you talk about 90 travel days. Then down in the third paragraph you talk about 45 travel days, 60 travel days. What do you mean by travel days? You mean that is the number of days that an examiner will be on the road traveling?

Mr. DONATY. He will be in travel status from the time he leaves his duty station to the time he comes back. This is 90 days out of 360 days.

Mr. WYMAN. That is in direct relation between the figure that is shown there and the number of travel days. You have a figure for each travel day times 90.

Mr. DONATY. Yes, sir, based on actual costs we figure, including per diem, transportation, and so on, it runs approximately $35 a day. We use this as a guide. We multiply $35 times 90 days.

In the particular case you mention, hearing examiners are on the road a lot.

Mr. JONAS. I don't understand the $35 a day.

Mr. DONATY. The $35 a day is an average we have struck.

Mr. JONAS. That includes transportation and dwelling?

Mr. DONATY. Transportation, per diem, and miscellaneous expenses. We pay $16 a day per diem.

Mr. JONAS. That is maximum?

Mr. DONATY. Yes, sir.

Mr. JONAS. You pay all the people in travel status that much? Does that include investigators?

Mr. DONATY. If we know a person will be out more than 2 months, we make arrangements with him to reduce the $16 down to $14 or $12, for example.

Mr. JONAS. Do you pay the same per diem to the examiners as you do investigators?

Mr. DONATY. Yes, sir.

PURCHASE OF TYPEWRITERS

Mr. WYMAN. At page 114 you show electric typewriters, 25, unit price $430. You intend to replace them. Then you say the total trade-in value is $750. You mean the 25 electric typewriters you now have will bring only $750 as trade?

Mr. DONATY. No, sir. What we will trade in are manuals for electric typewriters. The trade-in on the 25 typewriters will give us $750.

Mr. WYMAN. Manuals, not electrics?

Mr. DONATY. That is right.

Mr. WYMAN. It doesn't say that there.

Mr. THOMAS. Don't we still carry that limitation on typewriters? You get them from GSA?

Mr. DONATY. Yes, sir, they have schedules.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. THOMAS. You buy through the General Services Administration?

Mr. DONATY. That is right.

Mr. THOMAS. What does an electric typewriter cost now?

Mr. WYMAN. The Executive is around $650 to $700. That is the top grade.

Mr. DONATY. We buy them for $430.

Mr. THOMAS. There is a 33⅓-percent reduction.

Mr. DONATY. Off the record.

(Discussion held off the record.)

EQUIPMENT

Mr. BOLAND. Insert pages 113 and 114 in the record regarding equipment.

(The pages referred to follow:)

EQUIPMENT

The following table shows the amount required for the purchase of equipment in 1962, the estimate for 1963, and the 1964 estimated requirements.

Item	Actual, 1962	Estimate, 1963	Estimate, 1964
Equipment	$192,910	$62,000	$50,500

For 1964, the amount of $50,500 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 1964	$11,800
2. Replacement of equipment	38,700
Total	50,500

1. 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	41	$6,560
Typist desks	160	13	2,080
Rotary chairs	40	41	1,640
Typist chairs	30	13	390
Calculators	900	4	3,600
Typewriters	430	13	5,590
Subtotal			19,860
Less: Estimated cost of equipment to be obtained, as excess, from GSA			8,060
Total			11,800

2. REPLACEMENT OF EQUIPMENT

The request for $38,700 pertains to the following items:

A. Normal replacement of 25 existing typewriters, which are eligible for replacement under the GSA replacement standards.

Type	Quantity	Unit price	Replacement cost	Total trade-in value	Net cost
Electric	25	$430	$10,750	$750	$10,000

B. The agency utilizes approximately 200 adding machines and calculators, of which approximately 60 are more than 10 years old. The cost for servicing and repairing these machines is increasing. The net sum of $12,200, as shown below, is requested to replace 12 obsolete adding machines and 10 calculators.

Type	Quantity	Unit price	Replacement cost	Total trade-in value	Net cost
Adding machine	12	$300	$3,600	$300	$3,300
Calculator	10	950	9,500	600	8,900
Total					12,200

C. The present Commission car is a 1957 Ford station wagon and is eligible for replacement under the GSA standards. The net cost of a new vehicle after trade-in value ($550) is estimated at $1,400.

D. Conversion of upright filing cabinets to open shelf files at a cost of $7,000. This amount will permit the purchase of 100 complete sections of open shelf file units for normal expansion of records and files.

FEES COLLECTED BY THE COMMISSION

Mr. BOLAND. On page 116 we note you are going up $600,000 in fees for 1964, totaling $3,303,000 as opposed to $2,703,000 in 1963.

Are there any questions on page 116?

Mr. JONAS. Why did you go down in fees in 1963 as compared to 1962?

Mr. DONATY. In 1962, if I recall, we received 2,307 registration statements for which we obtained fees.

In fiscal 1963, this current year, we assume we will receive only 1,550 registration statements.

Mr. JONAS. How do you account for that?

Mr. CARY. The market break. Up to that point people were filing regularly.

Mr. JONAS. You should have come in and voluntarily offered to reduce about 100 positions, should you not?

Mr. CARY. Actually we came in before you to have more people, just before May 28, because we were so far behind——

Mr. JONAS. Off the record.

(Discussion held off the record.)

TEMPORARY EMPLOYMENT

Mr. BOLAND. Look at page 117, personal services other than permanent. This program includes temporary, part time and consultants, and serves as an avenue for recruiting.

Do you actually pick up any personnel through this program?

Mr. CARY. We have had a number who come with us and stay with us.

Mr. BOLAND. Any questions, gentlemen?

Mr. JONAS. You are not planning to use consultants?

Mr. CARY. We will have some consultants in this sense: For example, I am hoping to have Mr. Cohen stay with us as long as he can.

Mr. JONAS. Is he on leave from Pennsylvania?

Mr. CARY. Mr. Cohen is a practicing lawyer and a leading member of a Chicago firm from which he resigned to take this job.

Mr. JONAS. How about Wharton School?

Mr. CARY. They did the Wharton School report. This was on a contract basis.

Mr. JONAS. You did the other study within the agency?

Mr. CARY. That is correct.

Mr. BOLAND. Off the record.

(Discussion held off the record.)

Mr. BOLAND. Thank you, Mr. Chairman and gentlemen. It is always a delight to listen to you.

I think you have noted that your Commission is one of our favorites. We think the Commission works about as hard if not harder than any other Commission which appears before us. You do a fine job.

Thank you very much. Come back again any time.

Mr. CARY. We appreciate your confidence and we shall try to live up to it.

Mr. CONWILL. There are occasions when we do retain consultants for special purposes, thinking particularly of some rather difficult litigation we are now engaged in.

Mr. JONAS. That is shown blank in the justification.

Mr. CONWILL. It is only temporary for the purpose of litigation.

Mr. THOMAS. Thank you, gentlemen.

MONDAY, FEBRUARY 4, 1963.

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. M. HANSMAN, CONTROLLER
J. D. SHYTLE, DIRECTOR, BUDGET SERVICE
B. E. TURNER, ASSISTANT ADMINISTRATOR FOR APPRAISAL
P. N. SCHMOLL, ASSISTANT ADMINISTRATOR FOR MANAGEMENT SERVICES
E. J. GORMAN, MANAGER, ADMINISTRATIVE SERVICES
W. O. UNDERWOOD, ASSISTANT ADMINISTRATOR FOR PERSONNEL
C. F. BRICKFIELD, GENERAL COUNSEL
J. W. STANCIL, CHAIRMAN, BOARD OF VETERANS APPEALS
F. R. HOOD, DIRECTOR, INFORMATION SERVICE
C. C. COOK, ACTING DIRECTOR, SUPPLY MANAGEMENT SERVICE

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

W. ASHBRIDGE, ASSISTANT ADMINISTRATOR
L. G. SCHWEICKART, EXECUTIVE ASSISTANT
C. F. HEGNER, MANAGER OF OPERATIONS
J. C. GARVER, CHIEF, PROGRAM CONTROL DIVISION

DEPARTMENT OF INSURANCE

P. J. BUDD, CHIEF INSURANCE DIRECTOR
H. T. WATERMEIER, DEPUTY CHIEF INSURANCE DIRECTOR
H. J. CLARKE, CONTROLLER
W. A. POISSANT, CHIEF ACTUARY

DEPARTMENT OF MEDICINE AND SURGERY

DR. W. S. MIDDLETON, CHIEF MEDICAL DIRECTOR
DR. H. MARTIN ENGLE, DEPUTY CHIEF MEDICAL DIRECTOR
DR. LINUS A. ZINK, ASSISTANT CHIEF MEDICAL DIRECTOR FOR PLANS AND COORDINATION
J. D. BAKER, CONTROLLER
R. W. WISE, DIRECTOR, BUDGET SERVICE
R. H. BUCKNELL, DIRECTOR VETERANS CANTEEN SERVICE

DEPARTMENT OF VETERANS BENEFITS

P. N. BROWNSTEIN, CHIEF BENEFITS DIRECTOR
A. W. FARMER, DIRECTOR, COMPENSATION AND PENSIONS SERVICE
J. M. DERVAN, DIRECTOR, LOAN GUARANTY SERVICE
E. R. SILBERMAN, CONTROLLER
U. E. WELLS, ASSISTANT CONTROLLER

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

C. W. DUGGAR, CHIEF, BUDGET AND ACCOUNTING SECTION
F. J. BURNS, BUDGET ANALYST

DEPARTMENT OF VETERANS BENEFITS

H. D. YORK, DIRECTOR, VOCATIONAL REHABILITATION AND EDUCATION SERVICE
P. H. THOMAS, DIRECTOR, GUARDIANSHIP SERVICE
W. R. KOSELUK, DIRECTOR, ADMINISTRATION AND DATA PROCESSING SERVICE, AND ACTING DIRECTOR, CONTACT AND FOREIGN AFFAIRS SERVICE

DEPARTMENT OF MEDICINE AND SURGERY

G. C. PARMELEE, DIRECTOR, SUPPLY SERVICE

Mr. THOMAS. Gentlemen, will the committee please come to order.

The committee always looks forward to having with us the Veterans Administration and its very able and distinguished Administrator and his very capable and efficient staff.

INTRODUCTION OF STAFF

We have with us again the Administrator, Mr. John S. Gleason; Mr. Driver, the Deputy Administrator; Dr. Monk, the Associate Deputy Administrator; Mr. McAnsh, the Assistant Deputy Administrator—where is Mr. McAnsh?

Mr. MCANSH. Here, sir.

Mr. THOMAS. Good morning.

The Controller, Mr. Hansman—where is he?

Mr. HANSMAN. Here, Mr. Chairman.

Mr. THOMAS. Welcome aboard. It is nice to see you.

Mr. Shytle, the Director of the Budget Service. You have certainly done an outstanding job. Those tables tell the story.

Mr. SHYTLE. Thank you, sir.

Mr. THOMAS. But on the compensation and pensions next time break that down in the different categories and do not lump them all together. It is easy to pick out one or two little shortcomings in a budget, but I tell you it is a work of art to put it together like you have and you deserve a lot of credit, so we have nothing but praise for you.

Where is Mr. Turner, the Assistant Administrator for Appraisal?

Mr. TURNER. Here, Mr. Chairman.

Mr. THOMAS. How are you this morning?

Mr. TURNER. Fine, thank you.

Mr. THOMAS. You are in business in a big way, are you not?

Mr. Schmoll, the Assistant Administrator for Management Services. Where are you?

Mr. SCHMOLL. Here.

Mr. THOMAS. Good morning, sir.

Mr. Gorman, the Manager of Administrative Services. Where is Brother Gorman?

Mr. GORMAN. Here, sir.

Mr. THOMAS. It is good to see you.

Mr. Underwood, the Assistant Administrator for Personnel. Where is Mr. Underwood?

Mr. UNDERWOOD. Here, sir.

Mr. THOMAS. You have not put a green sheet in here yet, have you, and the closest approximation to it are your big overall tables and they are incomplete, but that is not too bad. We want to do a little business with you during the hearings. We want your green sheets for some of these divisions and you might be prepared to break down your pay raises and give us a little bit more information. Besides the salary increase we want to see the benefits.

Mr. Brickfield, the General Counsel. Where is the chief counsel?

Mr. BRICKFIELD. Here, sir.

Mr. THOMAS. Good morning, sir. How many chief attorneys do you have now in the VA?

Mr. BRICKFIELD. 65, Mr. Chairman.

Mr. THOMAS. Well, you have your hands full. You have a tremendous legal job. How much jurisdiction do you have over the other 65 chief attorneys?

Where is Judge Stancil, Chairman of the Board of Veterans Appeals?

Mr. STANCIL. Here, sir.

Mr. THOMAS. Judge, how are you doing?

Mr. STANCIL. Just fine, sir.

Mr. THOMAS. Nice to have you. I imagine you are importuned several times a week, are you not, Judge?

Mr. STANCIL. Yes, sir.

Mr. THOMAS. We think you do a terrific job.

Where is Mr. Hood, the Director of Information Service?

Mr. HOOD. Here, Mr. Chairman.

Mr. THOMAS. How are you doing this morning?

Mr. HOOD. Fine, thank you, sir.

Mr. THOMAS. You really have a nice staff all over the country.

Mr. Cook, the Acting Director of the Supply Management Service. Where is Mr. Cook?

Mr. COOK. Here, sir.

Mr. THOMAS. Nice to have you with us. Have you taken over the "merchant prince's" job altogether?

Mr. COOK. Acting as the "merchant prince" at the moment, sir.

Mr. THOMAS. Well, for the first time we finally have the supply operation all on one page where you can get a bird's-eye view. Was that your handiwork?

Mr. SHYTLE. We keep trying to give you what you need, sir.

Mr. THOMAS. Mr. Ashbridge, the Assistant Administrator for Construction. Where is the colonel?

Mr. ASHBRIDGE. Here, sir.

Mr. THOMAS. How is everything?

Mr. ASHBRIDGE. Fine, thank you, sir.

Mr. THOMAS. Mr. Schweickart, the Executive Assistant for Construction. Where is Mr. Schweickart?

Mr. SCHWEICKART. Right here, sir.

Mr. THOMAS. He is an oldtimer, is he not?

Mr. Hegner, Manager of Operations for Construction. Where is Mr. Hegner?

Mr. HEGNER. Here, sir.

Mr. THOMAS. Mr. Garver, the Chief of the Program Control Division for Construction. Where is Mr. Garver?

Mr. GARVER. Here, sir.

Mr. THOMAS. In the Department of Insurance we have Mr. Budd, the Chief Insurance Director. Where is Mr. Budd?

Mr. BUDD. Here, sir.

Mr. THOMAS. Nice to see you.

Mr. Watermeier, the Deputy Chief Insurance Director; Mr. H. J. Clarke, the Controller of the Department of Insurance; and Mr. Poissant, the Chief Actuary of the Department of Insurance. Where is Judge Poissant?

Mr. POISSANT. Here, sir.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. It is certainly nice to have with us our distinguished Dr. Middleton, the Chief Medical Director; and Dr. Engle, the Deputy Chief Medical Director. Where is Dr. Engle?

Dr. ENGLE. Right here, sir.

Mr. THOMAS. Good morning, Doctor.

Dr. ENGLE. Good morning.

Mr. THOMAS. Dr. Zink, the Assistant Chief Medical Director for Plans and Coordination. Where is Dr. Zink?

Dr. ZINK. Here.

Mr. THOMAS. Nice to see you.

Mr. Baker, the Controller for the Department of Medicine and Surgery. Where is Brother Baker?

Mr. BAKER. Here, sir.

Mr. THOMAS. He is an oldtimer; one of the pillars.

Mr. Wise, the Director of the Budget Service of the Department of Medicine and Surgery. Where is he?

Mr. WISE. Good morning, sir.

Mr. THOMAS. Brother Wise has been with us a long time. We could not run the Medical Department without him. The bed cost is going up all the time, Doctor. What will you do about it?

Where is Mr. Bucknell, the Director of the Veterans' Canteen Service of the Department of Medicine and Surgery?

Mr. BUCKNELL. Right here, sir.

Mr. THOMAS. Good morning. When is the Merchant Prince going to take you over or are you going to take over the Merchant Prince?

Mr. BUCKNELL. I think there are no plans for either, sir.

Mr. THOMAS. Why are there not?

Mr. BUCKNELL. I do not think it is appropriate that either be done.

Mr. THOMAS. Well, he is in the buying business and you are in the buying business, the taxpayers put you in business and are keeping you in business with a protective arm over your head. The Merchant Prince says he can buy cheaper than anybody in the country and if you listen to him long enough he will prove it, but I cannot understand his tables. Once he said for every $100 of sales it costs $4 to do business, and then at another place he says it is $11. I do not know what that includes. Is it all salaries? What about the other objects and so forth? You prepare yourself on that. That is Mr. Cook's problem, is it not?

Mr. COOK. Yes, sir.

Mr. THOMAS. And in the Department of Veterans Benefits we have Mr. P. N. Brownstein, the Chief Benefiter. Is is true what I read in the paper that we are going to lose Judge Brownstein?

Mr. GLEASON. That is correct.

Mr. JONAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. Well, the Veterans' Administration's loss will be the gain of FHA. Judge Brownstein is an outstanding administrator and has turned in a magnificent performance with the Veterans' Administration. Mr. Gleason, the Administrator, thoroughly dislikes the idea of losing him but the people of the country generally will have the benefit of his good judgment and good service.

Mr. BROWNSTEIN. Thank you, sir.

Mr. JONAS. Was he not quoted as saying he did not like houses, that he likes apartments?

Mr. BROWNSTEIN. They were then talking about where I live.

Mr. JONAS. And not what you recommend for others.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. Mr. Farmer, the Director of Compensation and Pensions Service. Where is Judge Farmer?

Mr. FARMER. Here, sir.

Mr. THOMAS. Nice to see you. We were told the compensation and pension administrative expenses were going down and down, that they were processing the papers in Chicago with electronic equipment, and here we come up with 88 new jobs. Where is that reduction? Was it 88 new jobs?

Mr. GLEASON. Eighty-seven.

Mr. THOMAS. You would not trip me up for one job. Looking at your justifications, it says 88.

Mr. Dervan, the Director of the Loan Guaranty Service. Where is Brother Dervan?

Mr. DERVAN. Here, sir.

Mr. THOMAS. We are glad to have you. You think these foreclosures will slow down this year?

Mr. DERVAN. In the last fiscal year we acquired about 21,000 properties and the first half of this year we have acquired 12,391.

Mr. THOMAS. It does not look like it is slowing down, does it?

Mr. GLEASON. Our sales have been increasing.

Mr. THOMAS. Your budget indicates it will slow down by about 20 percent.

Mr. BROWNSTEIN. Our new defaults being reported are slowing down and we hope this will translate into fewer acquisitions in 1963.

Mr. THOMAS. Where is Mr. Silberman, the Controller of the Department of Veterans Benefits?

Mr. SILBERMAN. Right here, sir.

Mr. THOMAS. Where is Mr. Wells, the Assistant Controller of the Department of Veterans Benefits?

Mr. WELLS. Here, sir.

Mr. THOMAS. Mr. Wells has been with us a long time.

Mr. Duggar, the Chief of the Budget and Accounting Section for Construction. Where is Mr. Duggar?

Mr. ASHBRIDGE. He is in the other room.

Mr. THOMAS. And Mr. Burns, the budget analyst for construction?

Mr. ASHBRIDGE. He is also in the other room.

Mr. THOMAS. Mr. York, the Director of the Vocational Rehabilitation and Education Service. Where is Mr. York?

Mr. BROWNSTEIN. He is in the next room, Mr. Chairman.

Mr. THOMAS. Mr. P. H. Thomas, the Director of the Guardianship Service. Where is Mr. Thomas?

Mr. BROWNSTEIN. He is with Dr. York, and Mr. Koseluk is there, too.

Mr. THOMAS. Mr. Koseluk is Director of the Administration and Data Processing Service, and Acting Director of the Contact and Foreign Affairs Service.

OPERATIONS IN FOREIGN COUNTRIES

Which countries are we operating in now?

Mr. GLEASON. The Philippines and Italy.

Mr. DRIVER. We distribute benefits in 110 countries now, Mr. Thomas.

Mr. THOMAS. Where are your foreign offices?

Mr. GLEASON. Rome and Manila.

Mr. DRIVER. And Puerto Rico.

Mr. THOMAS. Do you not have some people in France?

Mr. BROWNSTEIN. Those are under the State Department. There is a Foreign Affairs Service Officer in Paris, one in London, one in Frankfurt, and one in Rome.

Mr. THOMAS. How many do you have altogether in foreign countries?

Mr. BROWNSTEIN. Foreign Affairs Service Officers in toto in Europe, seven, then there are clerical assistants who are natives.

Mr. THOMAS. Clerical assistants to whom?

Mr. BROWNSTEIN. To the Foreign Affairs Service Officers. These are not on our payroll. These are on the State Department payroll. I think the total staff in all European offices is 22.

Mr. THOMAS. About seven or eight in each?

Mr. BROWNSTEIN. Frankfurt is the largest.

Mr. THOMAS. Are they operated by transferred funds?

Mr. DRIVER. Partially. We pay an average of $10,000 to $12,000 annually.

Mr. THOMAS. Those services do not serve any useful purpose. You have people going to school in foreign countries drawing GI benefits and if they are old enough to go in the service and old enough to go to school in a foreign country they could receive their checks through the mail.

Mr. BROWNSTEIN. Most of them are compensation and pension payments and now under the new law there is a hospital provision for those permanently residing abroad. Formerly that provision had been only for those temporarily residing abroad.

Mr. THOMAS. Those offices can be closed down. I notice you are transferring some people to Manila and the transportation of household goods alone is $4,000 apiece.

Mr. BROWNSTEIN. We have a rotation plan on the people in Manila.

Mr. DRIVER. It is our largest foreign office. There are about 350 employees in Manila.

Mr. GLEASON. About 65 percent of the Embassy staff is over there, sir.

Mr. THOMAS. The transportation cost, not the travel cost of the employee but the transportation of household goods, if my memory is right, is $4,000 apiece. Or is it $3,000?

Mr. MONK. Close to $3,000.

Mr. JONAS. Will the chairman yield?

Mr. THOMAS. Go ahead, Mr. Jonas.

Mr. JONAS. In how many Iron Curtain countries do we have people receiving benefits?

Mr. DRIVER. None. We specifically refrain from paying benefits to Iron Curtain country people. The only places we make a distribution of money are where we can be sure the beneficiary gets the benefit.

Mr. JONAS. How can you be sure?

Mr. DRIVER. We go in and actually see the people.

Mr. JONAS. What group constitutes the people abroad receiving benefits?

Mr. DRIVER. The largest group are the Filipinos. We are spending $47 million a year in benefit payments in the Philippines and $24 million in the rest of the world with $16 or $18 million of that going in Western Europe.

Mr. JONAS. Are beneficiaries mostly U.S. nationals working abroad temporarily?

Mr. DRIVER. No, sir. Most of them would be pensioners, such as in Italy, men who were here in our country and served in our forces in World War I and after they worked 20 or 25 years and retired they

went back home. They are not citizens but they served in our Armed Forces. They live in Greece and Italy mostly.

Mr. BROWNSTEIN. About 60 percent of our European payments are paid to beneficiaries in Italy and Greece.

Mr. THOMAS. The record should be clear that these people were residents of the United States and served in the U.S. armed services and they were inducted in the military service of the United States while they were living in the United States. They were legally here.

Mr. DRIVER. Right.

Mr. THOMAS. And then, for reasons which were their own choosing, and certainly legal, they decided to go back to their old countries.

Mr. DRIVER. In that regard, just recently the Treasury Department has suspended the distribution of checks in Cuba. They had been distributing them through the Swiss Embassy until about a month ago, when it became so uncertain where the money went, they have been suspended.

Mr. JONAS. What do you do, impound the money?

Mr. DRIVER. The Treasury Department holds it up.

Mr. THOMAS. Mr. Administrator, do you have a statement for us? If so, we will be glad to listen to it. The budget is really running into money, in round figures, $5,430 million. That is real money.

GENERAL STATEMENT

Mr. GLEASON. Mr. Chairman and gentlemen of the committee, this committee has always shown a keen and deep interest in the Veterans' Administration and the manner in which it conducts its programs. Your suggestions always have been most helpful and in the best interest of the veteran and his dependents. I am honored to appear before you today with my staff to explain the fiscal year 1964 appropriation requirements of the Veterans' Administration. I also wish to highlight for you our progress since I last appeared before you on January 23, 1962.

Our budget request for fiscal year 1964 totals $5,429,462,000. This represents an increase of $35,351,000 from the amounts appropriated for fiscal year 1963, including pending supplementals. The accompanying table shows a comparison of our needs, by appropriation, with those of this year. Before explaining major elements of our budget estimate for fiscal year 1964, I would like to discuss briefly where we have been and where we are going.

AUTOMATIC DATA PROCESSING

Since we were last before you, the Veterans' Administration has made significant strides in the area of automatic data processing. As of now, virtually all of our compensation and pension accounts, totaling some 4.5 million, are on our computer equipment at the Hines, Ill., Data Processing Center. At our Philadelphia Center, 4.5 million national service life insurance accounts have also been placed on our computer there. By December 1963, U.S. Government life insurance accounts will be phased into this equipment.

These actions have already resulted in substantial savings in administrative costs and we are hopeful that we will be able to realize sub-

stantial additional economies in the future. An example of the savings realized by our data automation program is the payment of the accelerated regular and special dividends in early January. These dividends were processed mechanically by the Philadelphia Center. By January 7, 3.2 million checks were in the mail, or in the hands of the policyholders. The entire dividend payment was completed by the end of January. The estimated cost of this administrative processing was approximately $100,000. Based on past experience, it would have cost $1.3 million, or more, to pay this dividend on a manual basis. In addition, the payments would have been spread over many months. If all of our life insurance accounts were on tape, the estimated cost of payment would have been approximately $25,000. The above figures relate to differentials in cost of personal services. Service is improved and costs are down by using this equipment. Our future plans call for the aggressive exploration of other profitable data automation applications in the Veterans' Administration. Our Department of Medicine and Surgery has also made substantial progress in this area. Current studies looking toward the automation of patient data and research support data should make a substantial contribution to the advance of medicine, not only in the Veterans' Administration, but within the entire medical profession.

As you will remember, when we were before you last year to explain our fiscal year 1963 budget request, we discussed the relative merits of purchase versus rental of computer equipment. After our meeting, we examined this more carefully and determined that purchase would be to the definite advantage of the Government. In February 1962, I ordered a tightening of the belt in all Veterans' Administration activities. As a result, we were able to purchase computer equipment costing $2.8 million, from available fiscal year 1962 funds.

Then, as a result of further belt tightening in our plans for fiscal year 1963, we have been able to purchase additional computer equipment, costing $3.0 million, this year. To summarize, the total cost of this equipment has been $5.8 million. However, the total annual savings in rent, making allowances for all other factors such as service, etc., is $1.6 million per year. In other words, the cost of this major computing equipment will be amortized in about 3½ years through rental savings. The support of this committee has made the above possible.

PAY RAISE COST AND ABSORPTION

One other item that deserves comment at this time relates to the pay raise legislation, Public Law 87–793, and what we did about it. The total fiscal year 1963 cost of Public Law 87–793 for all Veterans' Administration activities was $32,469,000. The act provided that departments and agencies absorb the cost of increases to the fullest extent possible. I am proud of our accomplishments in this area. Of the $32.5 million total cost in fiscal year 1963, we have been able to absorb in excess of $12 million. Over $5 million is reflected as a direct absorption of pay act and wage board increases, and some $7 million is represented by the absorption of unbudgeted cost increases that arose after the fiscal year 1963 budget was formulated. We are continuing our efforts to become more efficient in all areas of our operations.

EQUIPMENT PROGRAM

A significant feature of medical operations is the continuation of the program you approved last year to start bringing the equipment in our hospitals and clinics to a satisfactory operating level.

Before initiating this program, the condition of much of our medical care equipment posed a serious problem. Average annual expenditures during the prior 5 years for this purpose, in relation to the total value of all equipment, indicated a replacement cycle of almost 35 years, compared to the 10- to 15-year life expectancy standard developed by the major medical associations as guides for their member hospitals.

A study, conducted jointly with the Bureau of the Budget, resulted in a new system which enables us to determine by fiscal year when each item of equipment should be replaced, on the basis of established life-expectancy standards. This study, completed late in fiscal year 1962, disclosed that at the start of fiscal year 1963 there existed a backlog of replacement needs exceeding $18 million at current price levels.

Due to your help last year, we expect to reduce this backlog to about $9 million by the end of fiscal year 1963. Your approval of our fiscal year 1964 request will practically eliminate the backlog (to less than $1 million). In future years, our requests will be geared to the timely replacement of equipment when maximum useful life expectancy has been reached.

Your continued support of our objective in this area cannot help but improve both the efficiency and quality of medical care given our veteran patients.

ORGANIZATIONAL CHANGES

I am continuing to study the organization of the Veterans' Administration. Of immediate importance to this committee are the following actions:

AREA MEDICAL DIRECTORS

1. In December, I directed the Chief Medical Director to move his area medical directors to Washington. Within the past few days, this transfer has been effectively completed. This action brings the policy and decisionmaking aspects of the area medical office to Washington, reporting directly and responsible to the Chief Medical Director through the Deputy Chief Medical Director. The seven area offices, representing the review and appraisal aspects of the program, remain operative. I am convinced that the move of the area medical directors to Washington to shorten the span of control is essential to the effective operation of this program.

CLOSING OF CONTACT OFFICES

2. In December, I ordered the closing of 26 of the existing 35 Veterans' Administration contact offices. The nine remaining contact offices contain special activities, such as loan guaranty and medical functions. All these offices, which numbered more than 1,000 at one point, served a valid and useful purposes over the years, but they are now no longer essential to the effective operation of the various vet-

erans' programs. We will, however, continue to maintain approximately 235 contact locations, with more than 900 contact employees, at Veterans' Administration field installations to serve the Nation's veterans and their dependents. In addition, necessary itinerant service will be provided.

INSURANCE ACTIVITIES

3. When the present organizational structure was established in 1953, the Department of Insurance had 11,103 average employment. Our fiscal year 1964 projection for all insurance activities calls for an average employment of 2,641—or a reduction of 8,462 average employees in 11 years. This substantial reduction of 76 percent in employment has been accomplished even though workloads have decreased very slightly. For example, there were 7,320,000 policies in force in 1953. Our estimate for fiscal year 1964 is 5,887,000 policies in force, or a reduction from fiscal year 1953 of less than 20 percent, while employment has decreased 76 percent. In fiscal year 1950 the unit operating cost per policy in force was $9.03. In fiscal year 1964 we are projecting a unit operating cost per policy of $3.41.

As you know, the question of merging insurance offices has been and continues to be reviewed from time to time. On August 17, 1961, the chairman of the Veterans' Affairs Committee requested the General Accounting Office to conduct a study of the present three insurance offices and to advise him of their findings as to the feasibility and desirability of merging these offices into one or two offices instead of the present three. This was done and House Committee Print No. 257, dated November 9, 1962, clearly established all of the facts relating to this matter, as well as our response thereto.

We have continued our study of this matter and after giving careful consideration to all factors, such as the optimum size of the operation; the labor market, including availability of employees, turnover rates, productivity of employees; the availability and location of space; and other factors, I have determined it desirable to direct the following changes:

(*a*) consolidate the insurance activity at Denver with the St. Paul office, thereby serving the policyholders from two locations instead of the present three;

(*b*) consolidate the Department of Insurance in the organizational structure of the Veterans' Administration with the Department of Veterans' Benefits; and

(*c*) consolidate the regional office functions located in Philadelphia with the Insurance Center at Philadelphia. The outpatient clinic will remain in its present location until such time as it can be consolidated and merged with the hospital operation at Philadelphia. The consolidation of Insurance and Department of Veterans' Benefits activities in central office and in the field at both Philadelphia and St. Paul will pay considerable dividends in economies, as well as service in the future.

DEPARTMENT OF DATA MANAGEMENT

4. In order to exploit fully the increased efficiency and economy inherent in automation, I believe it is necessary for the administrative organization of the agency to keep pace with the improvements in

equipment technology and systems techniques. Fragmented systems patterned along organizational lines are no longer practical, since they do not enable us to view all aspects of the system. We must make certain that the total system is considered in all facets of system design and total operations of the agency. Therefore, I have directed the establishment of a separate operating department, i.e., Department of Data Management, that reports directly to my office and with the same status as the Department of Veterans' Benefits and the Department of Medicine and Surgery.

The study required prior to my final decision on these organizational changes has made it impossible to reflect them in our fiscal year 1964 budget submission now before you for consideration. It is my judgment that in fiscal year 1964, due to one-time costs inherent in organizational changes of this magnitude, savings will not be substantial, although I firmly believe that savings and improved service in future years will be significant. I do not visualize material savings will be immediately possible—in fact, additional expenditures may be required in establishing our Department of Data Management. I do feel that in the near future economies will result from the consolidations which I have directed. They will be realized as rapidly as possible and will be reflected in our fiscal year 1965 budget submission. I am unable to be more specific at this time, but I am sure we will accrue very worthwhile future benefits from these organizational changes in both service and more efficient and economical operations.

As previously stated, our request for fiscal year 1964 of $5,429,462,000 represents an increase of $35,351,000 from the estimated fiscal year 1963 requirements, including pending supplementals. This request contains specific provisions for the following:

1. Continued improvement in the quality of medical care;
2. Elimination of virtually all of the backlog of replacement equipment in our hospitals and clinics;
3. The fourth annual increment to finance our long-range hospital modernization and replacement program;
4. Rising costs of veterans' pensions, caused by our aging veteran population; and
5. Further decreases in the administrative cost of operations.

Of the total request, about 97 percent, or $5,256,355,000, is for:

1. Medical care;
2. Direct benefit payments to eligible beneficiaries; and
3. Modernization, improvement, and repair in our medical facilities.

GENERAL ADMINISTRATIVE COSTS

Our administrative costs, estimated at $173,107,000, or about 3 percent of our total budget, are $606,000 less than our estimate for the current year. These funds are requested for use as follows:

Staff services	$16,571,000
Department of Veterans Benefits	123,128,000
Department of Insurance	20,051,000
Medical administration	11,528,000
Assistant Administrator for Construction (Central Office)	1,829,000
Total	173,107,000

Our average employment level in administrative activities of 19,765 for fiscal year 1964 represents a decrease of 689 from the current year. Since 1947, our average employment in these activities has been reduced approximately 82 percent. We are proud of the improved productivity of our employees and are continuing to make considerable progress in the development of more efficient systems to render better service to our Nation's veterans.

STAFF SERVICES

The fiscal year 1964 estimates reflect a decrease of eight in average employment from the current year. The level requested for all staff activities of 1,502 average employment will enable us to continue the top management direction which has resulted in substantial gains to date. The overall cost reflects an increase of $492,000 over the fiscal year 1963 level, due principally to pay increases provided by Public Law 87–793 and two extra paid days in fiscal year 1964.

DEPARTMENT OF VETERANS' BENEFITS

The Department of Veterans' Benefits will require $123,128,000, an amount $2,829,000 above the fiscal year 1963 level. This increase in dollar cost is necessary chiefly because of Public Law 87–793 pay increases, even though the average employment request for fiscal year 1964 is down 324.

The employment decrease of 324 represents substantial gains in manpower utilization. Improved efficiency, continuing organizational and functional changes, coupled with some minor decreases in workload, account for this improvement.

As I previously mentioned, automatic data processing is paying substantial dividends. Payment and accounting for disability and death benefits, which involves processing and issuing monthly benefit checks to about 4½ million veterans and their dependents, are presently on the computer equipment at the Hines Data Processing Center. Data on magnetic tape is provided the Treasury Department, which produces checks automatically from the tape. Data is included in the tape to permit automatic presorting of checks by destination code. The system also provides accounting, statistical, and management reports. I expect even more progress in the very near future.

Vocational rehabilitation and education will continue to decline, notwithstanding the vocational rehabilitation and education bill, Public Law 87–815, passed late inthe last session of Congress. We expect a decrease from fiscal year 1963 to fiscal year 1964 of approximately 24,000 in the average number of Korean conflict trainees. The estimated average personnel reduction for this function from fiscal year 1963 to fiscal year 1964 is 71. The rapidly declining workload in this area has required that we consolidate administrative processing at a number of our stations. At present, the number of field stations having responsibility for education and training programs is 29. During fiscal year 1964 we will continue to review workloads in this program and effect further consolidations where warranted.

Our fiscal year 1964 projection for the loan guarantee program provides for a decrease in average employment of 69 from the fiscal

year 1963 level. This reduction is attributable to a projected leveling off of workloads in 1964. Operational responsibilities in the program to date have represented an initial contingent liability on the part of the Government of over $29 billion on loans aggregating over $54 billion in principal amount; a mortgage loan portfolio with an asset value of approximately $1.8 billion; property holdings having a value in excess of $231 million; and other assets receivable in excess of $28 million. These figures are cited to emphasize the magnitude of the program and the importance of effective management.

In the area of the Chief Attorney, we are estimating a decrease of 60 average employment from fiscal year 1963 to fiscal year 1964. This program has served the veteran's dependents well and represents a model of true service where and when it is needed. We have reached the point now when a fresh look is required of our mission and the procedures necessary to perform this function. We will deal with these problems carefully and continue to be sure that the interest of the veteran's dependent is protected.

Our compensation and pension employment is estimated to increase by an average of 87 employees in fiscal year 1964. This increase is attributed to recent legislation (Public Law 87–666) which requires that we furnish a "statement of the case" to any claimant or his representative who expresses dissatisfaction with our initial determination on a compensation or pension claim.

We continue to make substantial gains in the effectiveness of our office services. The average employment level in fiscal year 1964 is expected to decrease 99 from the current year.

DEPARTMENT OF INSURANCE

As previously explained, the Department of Insurance continues to make significant progress. Our estimated average employment in fiscal year 1964 is down 402 from the fiscal year 1963 level. Employee productivity is increasing and systems continue to improve. I have directed that the changes in organization previously mentioned to you be completely accomplished within the scope of this budget. We hope that further savings can be made. However, at this time I am not in a position to spell out the exact requirements of the revised organization in detail, except to assure you that it will be done within the budgetary amounts requested.

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

The fiscal year 1964 budget estimate reflects an increase over the fiscal year 1963 expected level of 45 man-years and $989,000. All but approximately 15 man-years of this increase were previously authorized by this committee for fiscal year 1963. The late enactment of the fiscal year 1963 appropriation bill and pending organizational changes precluded the addition of the fiscal year 1963 authorized employment until late in the current year. The new request for 15 man-years over the previously authorized level is to conduct a special nursing home study. We propose to undertake this study at the request of the chairman, Veterans' Affairs Committee, as endorsed by the Bureau of the Budget. The 15 additional employees include 10 social workers

and 5 clerical employees who will examine available resources for maintaining, outside of Veterans' Administration installations, patients and members in useful and productive lives.

The 45 man-year increase is distributed as follows:

Department of Medicine and Surgery, central office	4
Department of Medicine and Surgery, area offices	19
Assistant Administrator for Construction	7
Special nursing home study	15

Of the increase in cost of $989,000—$596,000 is attributable to average salary increases, most of which is the result of pay raise legislation, and $82,000 for the 2 extra days. We are not in a position at this time to spell out the details of the transfer of area medical directors to Washington, but, again, I have directed that it be accomplished within the amounts requested.

MEDICAL AND PROSTHETIC RESEARCH

Our request for $33,742,000 for this purpose in fiscal year 1964 is $3,242,000 more than the amount estimated for fiscal year 1963. Of this request, $1,275,000 is for prosthetic research, representing an appropriation increase over fiscal year 1963 of $275,000 for this purpose. Public Law 87–572 removed the appropriation limitation of $1 million for this function. The extremely modest increase of $275,000 will offset to some extent the inflation of research costs over the years and permit the Veterans' Administration to continue its major role in the prosthetic research field.

For medical research, the fiscal year 1964 request reflects an increase over fiscal year 1963 of $2,967,000. This increase provides an orderly and manageable growth pattern for the Veterans' Administration in this important area and is in accord with our 10-year long-range plan.

Although still a young program, Veterans' Administration medical research has paid big dividends in its contributions to scientific knowledge. In addition, the program is a major factor in maintaining the close relationships existent between the Veterans' Administration and the medical schools. Research, however, is not limited to these hospitals and many nonaffiliated hospitals have vigorous programs. In these, too, research is instrumental in attracting physicians of the highest grade and comparably trained bioscientists. The excellence of patient care throughout the Veterans' Administration hospital system is largely an indirect result of the research program.

MEDICAL CARE

We are requesting $1,087,688,000 for fiscal year 1964, an increase of $69,796,000 over the fiscal year 1963 annual appropriation. However, considering the supplemental for the pay raise (Public Law 87–793) and wage board increases of $31,874,000 to be added to fiscal year 1963, the true appropriation increase from fiscal year 1963 to fiscal year 1964 is adjusted to $37,922,000. Of this increase, $31,104,000 is attributable to the pay raise, periodic step increases, 2 extra paid days, and 1 extra calendar day in fiscal year 1964 over fiscal year 1963. Therefore, all other program changes, including the complete activa-

tion of our new Brecksville, Ohio, hospital, initial activation of additional beds at our new Washington, D.C., hospital, the activation of the restoration center at East Orange, N.J., increased cost of drugs, and other adjustments in staffing, net out to less than $7 million. Our total employment increase for all purposes is 550 average employment in fiscal year 1964 over fiscal year 1963.

This request provides for the treatment of 10,000 more patients and 18,000 more prepost and trial visits in fiscal year 1964 over fiscal year 1963. As we explained to you last year, we are particularly impressed by the fact that we are able to care for more patients in approximately the same number of beds. For example, since fiscal year 1960, our patients treated workload has increased from 637,377 to our present fiscal year 1964 projection of 708,508, an increase of 71,131 patients cared for in practically the same number of beds. Our chart on pages 22–21 of volume II of the justification spells out clearly the increased workload in our hospitals.

MEDICAL CARE PATIENT LOAD

Mr. THOMAS. May I interrupt you there? Look at the other side of the coin and see what your words imply. Do they imply that in years gone by, particularly in 1960 and 1961, that you had a backlog of patients that you were not able to give any medical attention to?

Mr. GLEASON. Yes, sir. We had quite a substantial waiting list. Through the prehospital and posthospital care program that was initiated and permitted by the Congress 2 years ago we are now able to take care of that many more patients.

Mr. THOMAS. Let us analyze the statement. You had a limitation of 125,000 beds?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. For how many years?

Mr. GLEASON. Since 1959.

Mr. THOMAS. It has been testified time and time and time again that there was no backlog for service-connected cases.

Mr. GLEASON. That is correct, sir.

Mr. THOMAS. What was your backlog for 1960, 1959, and those years on your non-service-connected cases?

Mr. GLEASON. I do not know that we have those figures available.

Dr. MIDDLETON. In the neighborhood of 25,000. I will have to get the exact figures.

Mr. BAKER. It was about 25,700 in March of 1960, and it is now down to around 17,100; about an 8,600 decrease.

Mr. THOMAS. Are they TB cases, general medical, or NP cases?

Mr. BAKER. At the present time, December 31, 1962, the total was 17,133. Of these 12,103 are psychiatric, 3,120 medical, and 2,210 surgical.

Mr. THOMAS. As to the number of patients waiting to be served, what part of those cases were bed cases that actually went into a hospital for treatment?

Mr. HANSMAN. They all went into the hospital.

Mr. THOMAS. It was not outpatient clinic work?

Mr. HANSMAN. No, sir; inpatient care.

Mr. THOMAS. What is the reduction from 1959 up to now in the days that the average patient spent in the hospital?

Mr. GLEASON. Mr. Chairman, I can give you these figures accurately if you would like from our annual report which we just sent over the weekend to all of the members here. The waiting list consists of veterans who have applied for VA hospitalization, determined legally eligible for VA inpatient care but not scheduled for admission. At the end of fiscal year 1962, the total number of applicants on the waiting list was 18,428, of which 45 were TB, 6,282 medical, surgical, or neurological, and 12,101 psychiatric. None of these applicants had service-connected conditions. The number of applicants awaiting admission to a VA hospital was 344 less on June 30, 1962, than at the end of the prior fiscal year. Of the more than 12,000 psychiatric patients on the waiting list two-thirds were already in hospitals but not as beneficiaries of the Veterans' Administration.

Mr. THOMAS. Were they former patients or first-time patients?

Mr. GLEASON. Generally, they were first-time patients. As the veteran population gets older, there is a need for greater medical attention. Our World War I veterans are requiring more hospital treatment.

Mr. THOMAS. Do you have any information on the period of time they stay in the hospital?

Mr. GLEASON. Approximately, sir, it is about 30 days for general medical and surgical.

Mr. THOMAS. Has there been a reduction?

Mr. GLEASON. It is down slightly. This is very difficult for us to bring this down, Mr. Chairman, because as you know, we do not have pediatrics, gynecology, or obstetrics in our hospital, which are short-time stay and the ones that we do care for are all of elderly nature and of course it takes longer for them to get well.

Dr. MIDDLETON. Mr. Administrator, if I may answer directly to this question, we could do so, Mr. Chairman, if we took specific conditions, I imagine.

Mr. THOMAS. Doctor, how do you explain the number of patients treated if there has been no reduction in the period of time a patient stays in the hospital and there has not been an increase since 1959 in the number of beds? Does that indicate that the hospitals before 1959 were not running at their maximum bed capacity?

Dr. MIDDLETON. The new bill made it possible for us to take care of patients in the order of prebed care, for laboratory tests, and so forth, of the non-service-connected veterans, who were scheduled for admission. Under those terms the time of stay for hemorrhoidectomy in that period of time has been reduced 1 day, herniotomy has been reduced 2 days; so in those two specific cases where you can pinpoint the surgical indication there has been a gain. If you multiply that by the number of patients who had those operations, you have some idea of what could be gained from the other part.

Mr. THOMAS. What part of the patient load goes to the hospital with one purpose in mind, for another purpose of looking toward compensation or pension?

Dr. MIDDLETON. That is outpatient in the main.

Mr. THOMAS. No bed care.

Dr. MIDDLETON. Those who need further study will be admitted. You are relating this question, as I judge, to the matter of compensation or pension and that goes to the outpatient service.

Mr. THOMAS. What part of your total workload of the outpatient service then is related to that type of case where he is looking for more evidence of either increase or decrease in pension?

Dr. MIDDLETON. We have those exact figures.

(NOTE.—The Veterans' Administration subsequently indicated 10 percent.)

Mr. THOMAS. We will go into the details later. Go ahead, Mr. Administrator. I beg your pardon for interrupting.

INPATIENT CARE

Mr. GLEASON. Our request anticipates a cost of $992,715,000 for inpatient care activities in fiscal year 1964—an increase of $34,935,000 over current year levels. Of the total increase, $24,957,000 is attributable to average salary and pay increases granted by Public Law 87–793 and $6,354,000 for the 2 extra paid days and 1 extra calendar day in fiscal year 1964 over fiscal year 1963. Therefore, the net program gain in fiscal year 1964 over fiscal year 1963 is $3,624,000.

We are continuing to operate our hospital system under the hospital bed ceiling of 125,000 established by the President on February 26, 1959. In fiscal year 1964 we plan to operate 121,486 hospital beds and 16,431 domiciliary beds for a total of 137,917 Veterans' Administration beds. We estimate that we will experience an average daily patient load in Veterans' Administration beds of 127,136, which represents 92 percent occupancy. The total of all beneficiaries to be cared for by the Veterans' Administration in fiscal year 1964, including contract hospitals and State homes, is expected to amount to a daily average of 139,055.

If our budget request is approved, our overall staffing ratio in Veterans' Administration hospitals will continue to improve from 1,077 employees per 1,000 average daily patient load in fiscal year 1963 to 1,085 employees per 1,000 average daily patient load in fiscal year 1964.

To recapitulate, the major items provided for in our inpatient medical care budget request are—

1. Annualization of the cost of full activation at the Veterans' Administration hospital, Brecksville, Ohio;
2. Initial activation of additional beds at the Veterans' Administration hospital, Washington, D.C.;
3. Initial activation of the restoration center at East Orange, N.J.; and
4. Increased costs and usage of drugs, medicine, medical supplies, and utilities, etc.

OUTPATIENT CARE

Our outpatient care operations are estimated to cost $100,149,000 in fiscal year 1964, an increase of $3,388,000 over fiscal year 1963. Of this increase, $2,793,000 is required to cover the cost of Public Law 87–793 salary increases and within-grade increases, and the 2 extra paid days. The additional $595,000 will be used to employ 28 addi-

tional personnel for professional care of patients in one new audiology clinic and five new day-care centers. It is estimated that we will have 47,000 more staff visits in fiscal year 1964 than is estimated for the current year.

COMPENSATION AND PENSIONS

We are requesting $3,921 million under this title for fiscal year 1964, which is an increase of $47 million over the amount needed for the current year. These funds are to finance an average case load for both compensation and pension of 4,384,157, which is an increase of 62,374 over the current level.

COMPENSATION

The estimate for fiscal year 1964 of $2,061,283,000 for compensation represents a decrease from fiscal year 1963 of $25,138,000. This downward trend in compensation is expected to continue, due primarily to death of veterans now on the rolls. We are estimating a case load of 2,332,185 for fiscal year 1964, which is a decrease of 22,350 from the fiscal year 1963 estimate.

PENSION

Our pension rolls are expected to continue to increase, due to the advancing age of the veteran population. These rolls are expected to average 2,051,972 in fiscal year 1964, which represents an increase of 84,724 cases over fiscal year 1963. The $1,799,840,000 requested for fiscal year 1964 for pensions represents an increase over fiscal year 1963 of $63,477,000.

OTHER MISCELLANEOUS BENEFITS

Included in this category are retired officers (emergency officers' retirement), adjusted service and dependents' pay, subsistence allowance, burial allowances, special allowance—dependents, and invalid lifts. The estimate for fiscal year 1964 includes $45,745,000 under "Burial allowances," which provides for 181,200 burial awards, or 5,800 more than our present estimate for fiscal year 1963. This cost, of course, can be expected to increase with the advancing age of the veteran population.

The total provided in the estimate for all other items listed above is only $14,132,000. The largest item in the "Other" category is subsistence allowance, which amounts to $11,262,000.

READJUSTMENT BENEFITS

We are requesting $101,100,000 for fiscal year 1964, which represents a reduction from fiscal year 1963, including pending supplementals, of $53,975,000. Of the amount requested, $56,751,000 is for education and training, $34 million is for transfer to the loan guarantee revolving fund, and $10,349,000 is for special assistance to disabled veterans.

EDUCATION AND TRAINING

World War II: The tremendous World War II training program has virtually drawn to a close. In fiscal year 1962 we had an average of only seven trainees. We estimate that the cost of this program in fiscal year 1963 and fiscal year 1964 will be negligible. As a matter of interest, during the course of this World War II training program, we received more than 11 million applications for training, and about 8 million entered training. I feel that this program has contributed substantially to the well-being of the entire Nation as we view it today.

Korean conflict: Our estimated average training load for Korean conflict veterans is projected at 28,000 for fiscal year 1964, a decrease of 24,000 from the current year level. The estimated cost of $35,-301,000 for fiscal year 1964 represents a decrease of $28,861,324 from current year requirements.

War orphans: We estimate the war orphans average traning load will decrease from 15,000 in fiscal year 1963 to 13,000 average trainees in fiscal year 1964. The cost is estimated at $21,450,000 for fiscal year 1964, a decrease from fiscal year 1963 of $3,300,000.

SPECIAL ASSISTANCE TO DISABLED VETERANS

The fiscal year 1964 budget estimate for this item is $10,349,000 or an increase over fiscal year 1963 of $1,857,000. Included in this item is vocational rehabilitation for disabled veterans, housing grants, and automobiles or other conveyances for disabled veterans. The entire increase is the result of Public Law 87–815 for extended vocational rehabilitation benefits to peacetime veterans.

TRANSFER TO LOAN GUARANTEE REVOLVING FUND

We are requesting $34 million for transfer to the loan guarantee revolving fund in fiscal year 1964 to supplement income of that fund to meet the high cost of claims and property acquisitions.

LOAN GUARANTEE REVOLVING FUND

The high cost of claims, property acquisitions, and other property management and sales expense continue to be a matter of grave concern to me at this time. Our revised fiscal year 1963 requirements are now estimated at $311,603,000, which contemplates a supplemental of $59,275,000 for the current year. Our estimated expenditures for fiscal year 1964 of $246,240,000 are based on a projection of continued improvement in economic conditions, dislocations, and so forth.

Our estimate for the current year and the pending supplemental are based on the projected sale of $150 million of mortgage loans to private investors. Our fiscal year 1964 projection contemplates the additional sale of $147 million of loans. We are reasonably sure that we can make the projected sale in fiscal year 1963. We will do all we can to sell as many loans as possible in fiscal year 1964. If we are unable to meet these sales figures, or if expenditures exceed estimates, our added requirements will have to be met from direct appropriations. In view of the uncontrollable nature of the expense involved

in property acquisitions and other loan guarantee costs, we are asking that the limitation on expenditures placed in previous appropriation acts be removed.

CONSTRUCTION

Our fiscal year 1964 "Construction" appropriation request is $81 million. This represents the fourth increment under our long-range modernization and replacement program. Major items included are—

1. Construction funds for a new 480-bed hospital for Gainesville, Fla.;
2. Construction funds for replacement hospitals at Long Beach Calif.; Oteen, N.C.; and Temple, Tex.;
3. Design and site funds for a new 1,000-bed neuropsychiatric hospital at Long Island, N.Y.;
4. Design funds for new hospitals at Los Angeles, Calif., and San Juan, P.R.; and
5. Funds for modernization and improvement of our hospitals that were built prior to World War II. This updating is vital if we are to realize maximum benefits from the great advances being made in the care and treatment of veterans.

Gentlemen, this concludes my opening summation of the highlights of the Veterans' Administration's fiscal year 1964 budget estimates.

I and members of my staff will be happy to supply any additional information that you may need.

SUMMARY OF APPROPRIATION AND ESTIMATES 1963 AND 1964

Mr. THOMAS. Insert the summary table at the end of the general statement.

(The table referred to follows:)

Summary of Veterans' Administration appropriations and estimates, fiscal years 1963 and 1964

Appropriation	Appropriated, fiscal year 1963 [1]	Estimate, fiscal year 1964	Decrease (−) or increase (+)
General operating expenses	$161,470,000	$159,750,000	−$1,720,000
Medical administration and miscellaneous operating expenses	13,993,000	14,982,000	+989,000
Medical and prosthetic research	30,500,000	33,742,000	+3,242,000
Medical care	1,049,766,000	1,087,688,000	+37,922,000
Construction of H. & D.F.	77,000,000	81,000,000	+4,000,000
Compensation and pensions	3,874,000,000	3,921,000,000	+47,000,000
Readjustment benefits	155,075,000	101,100,000	−53,975,000
Veterans' insurance and indemnities	32,000,000	30,200,000	−1,800,000
Grants to Republic of the Philippines	[2] 307,000	0	−307,000
Total	[3] 5,394,111,000	[4] 5,429,462,000	+35,351,000

[1] Includes the following pending 1963 supplemental requests:

General operating expenses	$3,801,000
Medical care	31,874,000
Medical administration and miscellaneous operating expenses	221,000
Compensation and pensions	42,000,000
Readjustment benefits	63,575,000
Grants to Republic of the Philippines	−193,000
Total	141,278,000

[3] Adjusted to reflect anticipated transfer of $193,000 to general operating expenses.
[2] Excludes direct loans of $200,000,000 and permanent indefinite of $760,000 in V.I. & I.
[4] Excludes direct loans of $150,000,000 and permanent indefinite in V.I. & I. of $800,000.

Mr. THOMAS. A very excellent, well-worded and compact statement.

Gentlemen, I suggest we might ask general questions at this time before we go on to the budget. Mr. Evins?

Mr. EVINS. Mr. Chairman, I have a couple of observations. I have listened with great interest to Administrator Gleason's statement and one gains the impression, for which he and his staff ought to be commended, that there is tremendously improved efficiency in the administration of all of the vast veterans' programs. There is a decrease in the number of personnel. Yet, we are struck with the fact that there is an increased appropriation request. They are to be commended for the reduction in personnel and for improved efficiency. I guess we will have to bear some of the responsibility for the passage of the pay increase and with the large number of personnel in the Veterans' Administration this comes to a substantial sum in increased expenditures. Certainly they are to be commended for the efficiency and improvement of the program.

REORGANIZATION—AREA MEDICAL OFFICES

Mr. Administrator, will you please spell out for us in a little more detail the reorganization work that you are doing? This committee has been very much interested in the reorganization of the VA for several years. I know we discussed at length the timelag and the various levels that the hospital managers have to go through to reach the Veterans' Administrator and the Chief of the Medical Services. I note with interest that you are planning on bringing in your area medical directors. Does this mean you will have a deputy area medical director retained in the field to perform substantially the same functions?

Mr. GLEASON. No, sir. I do not envisage that at all, Mr. Evins. I do believe that as in any organizaton there is a No. 2 and No. 3 man; prior to this time whenever the area medical director has been away making visits there has always been a No. 2 man in charge while he is absent. I would like very much to have the area medical directors in Washington to assist in the formulation of policy of the Departmen of Medicine and Surgery because I honestly feel that they can have a closer feel of what is going on in the geographic areas for which they are charged. It will also mean that they will be making their inspection trips just as they have in the past.

Mr. EVINS. I am sure these gentlemen have a vast reservoir of knowledge and experience and by pooling this experience they may be of great assistance to Dr. Middleton, the Chief Medical Officer, but does it mean sort of an additional staff level?

Mr. GLEASON. Mr. Evins, I have directed that all of these be accomplished within the budget funds that you people voted for us in fiscal year 1963 and to continue at that level.

Mr. EVINS. How much reduction in personnel will it mean in the areas in the field?

Mr. GLEASON. It won't mean any. As a matter of fact, we are already authorized additional people which we have not put on. We have had a freeze on those for about a year and a half, is it not, Doctor?

Dr. MIDDLETON. That is correct, sir.

Mr. GLEASON. Since a year ago last June we put a freeze on increasing any more. Those levels in effect at the time of the freeze will remain in effect.

Mr. EVINS. Will this reorganization change when fully accomplished, mean a direct line of contact between the hospital manager and the rest of the medical services?

Mr. GLEASON. This is certainly what I anticipate, Mr. Evins.

Mr. EVINS. A savings of time?

Mr. GLEASON. Yes, sir.

Mr. EVINS. More than any other factor?

Mr. GLEASON. That is right.

LOAN GUARANTEE DEFAULTS AND FORECLOSURES

Mr. EVINS. Would Mr. Brownstein, before he leaves, give us a picture as to how bad we are in the guarantee loan field? Are you leaving us, Mr. Brownstein, just at a time when they need to retain your services to clean up what we have learned is a rather alarming situation?

Mr. BROWNSTEIN. I do not think it is really an alarming situation, Mr. Evins. I think we are really in pretty good shape. Actually, I believe that for a good many years we all got used to a somewhat abnormally low foreclosure rate and we had relatively few, hardly any foreclosures for a good many years. The reason for this, I think, is fairly evident. We had a period of inflation that made up for a lot of mistakes, poor judgment of prospective homeowners, and this sort of thing; homeowners who wanted out generally were able to get out and probably make a profit doing so but for the last 6 or 7 years there has been relative stability in the real estate market.

From 1957 to the present time the Boeckh Index of Construction Costs has risen only about 6 percent. This is about what the present broker's commission is on the sale of a house. So, with this stability in the market, the person who today wants for one reason or another to dispose of his house has difficulty in doing so when you take into account the amount that this individual owes on the mortgage and the broker's commission that would be payable in the event that he sells.

As the Administrator mentioned in his statement, we do estimate some decrease in the number of properties that we will acquire in fiscal year 1964. The basis for this estimate is that the loans on the books are continuing to be seasoned, plus the fact too that we are experiencing a decline in the number of new defaults being reported to us. We now seem to have at least reached a level of activity that is not increasing. We have experienced some decline in the number of properties that we have been acquiring the last couple of months.

NUMBER AND RATE OF FORECLOSURES

Mr. EVINS. How many foreclosures did the VA assume within the last year?

Mr. BROWNSTEIN. We took in 21,000 properties in the last fiscal year.

Mr. EVINS. How does that compare again with the last 2 previous years?

Mr. BROWNSTEIN. The year before that I believe it was 14,600 and the year preceding that I believe it was about 11,000.

Mr. EVINS. Instead of declining it has increased from 11,000 to 15,000 to 21,000.

Mr. BROWNSTEIN. That is correct. It has increased. We have now, I hope, reached the point where this increase has stopped and I would hope that there will be somewhat of a reverse trend, although I must say I do not think, Mr. Evins, we are going to get back to those days that we had formerly, when we had relatively insignificant foreclosures.

Mr. JONAS. Will you yield?

Mr. EVINS. Yes.

Mr. JONAS. I understood the Administrator to say foreclosures in the last half of the current year would be 12,000. On a full-year basis that would be 25,000.

Mr. BROWNSTEIN. I was talking about fiscal year, Mr. Jonas. In fiscal year 1962 we took in, I believe, 21,500 properties. In the last 6 months we did take in about 12,000.

Mr. JONAS. I cannot follow you. You say the foreclosure rate is decreasing.

Mr. BROWNSTEIN. No. What I said was the number of new defaults being reported to us is decreasing and, in time, we would hope that this reduction will translate itself into a reduced level of foreclosure activity.

Mr. JONAS. While Mr. Evins has yielded to me, I will make one other comment. You are just jumping from the frying pan into the fire. You are not going to get out of this thing and give it to FHA, are you? They are in worse trouble than you are.

Mr. GLEASON. He knows that, Mr. Jonas.

Mr. BROWNSTEIN. I know that.

MORTGAGE PORTFOLIO

Mr. EVINS. Mr. Brownstein, how much is your total portfolio of mortgages which you hold in the VA at this time in round figures?

Mr. BROWNSTEIN. Including direct loans, Mr. Evins?

Mr. EVINS. Yes.

Mr. BROWNSTEIN. About $1.8 billion.

Mr. EVINS. How many have you been able to sell on the market to other financial institutions within the past year?

Mr. BROWNSTEIN. Well, we have been selling two kinds of mortgages. Our direct loans, of course, have to be sold at no less than par under the law. In addition when we take back a property and resell it we have been selling what we term our "vendee accounts." These are the mortgages that result from the sale of those houses. Our direct loans because of the scattered nature of the mortgages and the locations, plus the fact that we must sell them at par—we have sold in the past fiscal year, I believe, about $20 million. The others, on our "vendee account" sales in the past year—in 1963 our estimate is we will sell $150 million. That is for fiscal year 1963.

EXPERIMENTAL NURSING HOME STUDY

Mr. JONAS. You speak about an experimental nursing home training outside service——

Mr. GLEASON. That would be a study.

Mr. JONAS. Directed by the Veterans' Affairs Committee?

Mr. GLEASON. Yes, they have asked us to conduct it.

Mr. EVINS. This is a provision where people who run nursing homes would take patients out of the nursing hospitals and place them into privately owned nursing homes?

Mr. GLEASON. That is what we do now, Mr. Evins, but the House Veterans' Affairs Committee would like to have a study made to see whether the Veterans' Administration itself should not conduct nursing homes. I mean this is the study we are going to make to try to arrive at some conclusion to present to the House Veterans' Affairs Committee.

Mr. JONAS. In your domiciliary homes and nursing homes, if you ultimately establish that policy then you would have to revise your maximum limitation on numbers of beds?

Mr. GLEASON. That is correct, sir.

Mr. JONAS. That is all at the moment, Mr. Chairman.

HOSPITALIZATION FOR OVERSEAS RESIDENTS

Mr. BOLAND. With respect to activities overseas, did I understand we are now going to pay hospitalization for those who permanently reside overseas?

Mr. GLEASON. Yes, sir.

Mr. BOLAND. We have not been doing this heretofore.

Mr. GLEASON. Not until the law was passed at the last session of the Congress.

Mr. BOLAND. How much do you expect the increase to be in this area?

Mr. GLEASON. It is a small amount, Mr. Boland. I don't have it but I will get it for you.

(The information supplied follows:)

Medical care which may be furnished to veteran beneficiaries in Europe under Public Law 87–815 is estimated to cost somewhat less than $200,000 and will provide care annually for approximately 4,400 veterans with service connected disabilities residing there on a permanent basis, and for about 2,650 veterans in a transient status.

TRANSFER OF AREA MEDICAL DIRECTORS

Mr. BOLAND. On the transfer of area medical directors to Washington, Dr. Middleton, was this a recommendation you made? Is this a recommendation which you favor? Is it actually a transfer which you desire?

Dr. MIDDLETON. This has been under study for some time. It was not the recommendation of the Chief Medical Director.

Mr. BOLAND. Are you opposed to it?

Dr. MIDDLETON. We can make it work, sir.

Mr. BOLAND. That really isn't responsive.

Would you prefer to see them in the areas? In your opinion, do they do a better job in the areas than they can do in the central office?

Dr. MIDDLETON. In my judgment, yes.

Mr. BOLAND. Why is this necessary, then? This has apparently created quite a problem or controversy within the Veterans' Administration.

Dr. MIDDLETON. Sir, there is no controversy. This has been subjected to study and this is the decision of the Administrator and certainly it will work and we think, effectively.

Mr. BOLAND. You don't think it is going to work as well?

Dr. MIDDLETON. That is my judgment.

Mr. BOLAND. Mr. Administrator, would you defer to the judgment of the Medical Director in matters of this kind?

Mr. GLEASON. Not necessarily, Mr. Boland. As the chief administrative officer of the Veterans' Administration, under the law it is my duty and obligation to try and see that the organization functions as well as possible. It is my opinion, sir, that this will eventually work out to great advantage to the Veterans' Administration. I have been assured by the Chief Medical Director that it does not interfere with the medical care and treatment of the patients. This was a matter that has been under study for many years, Mr. Boland.

Mr. BOLAND. I am sure, Mr. Administrator, you are the last one in the world who would want to have anything interfere with the proper treatment and care of the veterans. I am confident of that. One of the things that puzzles me about this shift is that these are people who are expert in their own areas, as I understand it—how many are there, seven?

Mr. GLEASON. Seven; yes, sir.

Mr. BOLAND. These were area administrators who actually were supervising medical activities, as I understand it, in these seven areas. It would appear to me that they would be more effective in the field in which they operate rather than being in the central office. Why does this lead to better efficiency or why does it lead to a better care for the veteran with these people in Washington?

Mr. GLEASON. Because I think there will be a closer association with the Chief Medical Director and his staff as far as knowledge and line of authority is concerned. We have this same situation in our Department of Veterans' Benefits and the five area directors are in Washington and it has been very successful. We think this can be just as effective and successful as the Department of Veterans' Benefits area.

Mr. BOLAND. There has been some concern voiced by some people that this is an effort being made by the Administrator to get greater control of the Department of Medicine and Surgery.

Dr. MIDDLETON. I do not share that, sir.

Mr. BOLAND. You do not share that?

Dr. MIDDLETON. No, sir.

Mr. BOLAND. This is not my statement. I am repeating what all of you are aware of, of course.

In your judgment, Doctor, is this going to contribute to any decline in the efforts that are made by the Veterans' Administration in behalf of the care and treatment of the veteran?

Dr. MIDDLETON. No, sir.

Mr. BOLAND. Then you really don't have too much opposition to the transfer itself?

Why would you prefer to have these seven area medical directors back in the areas? You don't agree with what has been done here, and since you don't agree would you prefer to have them back in the areas?

Dr. MIDDLETON. I think it is a basic philosophy of management. The questions of the span of control, the proximity of the direct line officials to the action and decisions and the ability to regulate from a physical and geographic standpoint and thus to supervise the field. Those have been the bases of my position.

Mr. BOLAND. This disagreement doesn't really square then with the decision of the Veterans' Administration to accomplish this transfer, does it?

Dr. MIDDLETON. There is agreement, sir. I think that holds true in a democracy and I do respect the opinion of the other man—the other man being the Administrator.

Mr. BOLAND. How do the hospital men generally accept the area medical directors as to their supervision and authority to do the job that the area medical officers do, insofar as the hospitals in their area are concerned?

Dr. MIDDLETON. There is every range in the spectrum of dependence and independence. We, of course, have stimulated the philosophy that these hospital directors are men, responsible individuals, responsible for the conduct of their particular station and all of its activities. I can say categorically that some hospital directors could not care less for the area medical directors, or whether there are chief medical directors or even administrators.

Mr. BOLAND. Or whether they have them at all?

Dr. MIDDLETON. As a matter of fact, as long as they have money, as long as they have facilities, as long as they have all the support and personnel and so forth, this is true. If they were given carte blanche, I think you could state flately that the control and the supervision from their level up is simply a matter of their own personal convenience in operation.

Mr. BOLAND. Would they be happy to see the dissolution of the area medical directors completely?

Dr. MIDDLETON. When you approach them individually so far as the services are concerned, obviously they have depended not only on the area medical directors but on the chief medical directors, on the administrator, and on the Congress, but actually they are brought up in an independent frame of mind and they do run their shows, their independent operations, as stanch individualists.

Mr. BOLAND. Area medical directors are not changed very much are they?

Dr. MIDDLETON. They are a great source of strength, sir.

Mr. BOLAND. They remain there over a number of years, while hospital directors and managers come and go, don't they?

Dr. MIDDLETON. I have been here only 8 years, but they have had 351 changes in hospital directors.

Mr. BOLAND. These hospital directors and managers shift from area to area. They don't necessarily transfer within a particular area. So

the area medical director would probably know a lot more about the operation of hospitals in this area than a new hospital manager coming into an area? I am speaking about the administrative end of it.

Dr. MIDDLETON. That is a difficult question to answer categorically, Mr. Boland, because these area medical directors obviously must have the complete picture of their 26 to 32 hospitals. However, they cannot have the intimate operations of each unit in mind, such as complete knowledge of the personnel and the interplay of the personnel. So one could not answer your question yes or no. I think the day-to-day working of the hospital team is in the possession of the hospital director. In the overall supervision, it is the area medical director. He has been an invaluable assistant and associate to the central office in that respect.

Mr. BOLAND. Would you agree that even though this change has taken place and the transfer has now been fully effected, that this is not necessarily going to reflect in any diminution of services to the veteran?

Dr. MIDDLETON. I would like to have it a matter of record that it will not and cannot deteriorate medical care.

COSTS CONNECTED WITH TRANSFER OF AREA MEDICAL OFFICER

Mr. BOLAND. How about the cost? Will there be lower costs in this area or in your judgment will the costs increase over the years because of this transfer?

Dr. MIDDLETON. Under the present arrangement there is no design for increase in costs. As a matter of fact we have a ceiling of 268 personnel for area medical offices under which we are operating and we are asking for a total eventually of 305, so that there is no present design for a decrease in the personnel representing the area medical office function.

Mr. BOLAND. How about the costs for travel?

Dr. MIDDLETON. That presently, of course, is within the budgetary limitations and we will have to have experience.

Mr. BOLAND. No doubt the experience will show it will cost more. You are not going to keep these people in the central office. They are going to go out over the areas frequently and it will cost a lot more to travel from Washington to Boston than from Boston to West Roxbury or Jamaica Plain where you have a Veterans' Administration hospital.

Mr. GLEASON. That is correct.

Mr. BOLAND. So necessarily the costs will be increased?

Mr. GLEASON. Not the overall costs, Mr. Boland; I do not believe, sir.

Mr. MONK. Heretofore when they have been in the area they have gone out on short trips and have come back. Now certainly if they are here in Washington they are going to the west coast and not just visit one station there.

Dr. MIDDLETON. I am sorry, that has not been the general rule. When a man goes out, the area director or a member of his staff, he goes out to visit three or four hospitals.

Mr. MONK. But they have been home every weekend.

Dr. MIDDLETON. That is right, as a rule.

Mr. MONK. This would not necessarily be true when stationed here in Washington.

Mr. BOLAND. And the area medical director will get into the area less than he is now? Is that a fair statement?

Mr. MONK. I do not think so.

Mr. BOLAND. It would have to be. The area director for San Francisco, for instance, is not going to travel to San Francisco every week, is he?

Mr. MONK. No, sir.

Mr. BOLAND. If he were living in San Francisco, he would make the rounds of his area, I would think, a lot more frequently than he will now do with this setup.

Would this be true, Doctor?

Dr. MIDDLETON. I think he is going to have to delegate more regularly than he did before, so he will spell himself with an associate. He will have associates in the Washington office. Presently now they are located here and very comfortably.

Mr. BOLAND. And they are all happy, I presume?

Dr. MIDDLETON. I wouldn't say that.

Mr. GLEASON. I wouldn't say that either, Mr. Boland.

Mr. BOLAND. Well, it is agreed, at least within the framework of the VA, by the Administrator and the Chief Medical Director, that this is not going to cut down or curtail on the services which are now given to veterans and will not interfere with the operation of the Department of Medicine and Surgery, and there is no effort here on the part of anyone within the Veterans' Administration to exercise more power in the field of medicine. Is this a fair statement?

Dr. MIDDLETON. This is a fair statement of my opinion. I am certain there can be no deterioration of medical service. That I would not tolerate.

Mr. BOLAND. I am glad to have that on the record. It should be on the record in view of the publicity that has been released recently. I am sure this Administrator would be the last person in the world to interfere with the medical treatment received by the veteran. I am sure of that.

That is all, Mr. Chairman.

Mr. JONAS. I have one question I wanted to ask the Administrator.

ECONOMIES TO PERMIT PURCHASE OF COMPUTERS

I was impressed by your ability to pick up $5.8 million by tightening the belt, in order to buy some data processing equipment. Where did you make those economies?

Mr. GLEASON. I think the Controller can give you a little bit better idea than I can, Mr. Jonas.

Mr. JONAS. If you can make them to do that, why can't you make them all the time when you don't want to buy equipment? It brings into question whether your budget is as tight as you represent it to be to us when you present it.

Mr. HANSMAN. I think we have endeavored to present to this committee as tight a budget as we could.

Mr. JONAS. You say $5.8 million is saved somewhere. Where have those economies been made?

Mr. HANSMAN. They have been in all areas, sir. In some places we have been able to accomplish more workload with fewer people.

Mr. JONAS. How? You told us you couldn't do that when you defended the budget last year. You said you had it as tightly drawn as it could be drawn.

Mr. HANSMAN. That was our opinion at the time.

Mr. JONAS. This just proves budgets are never as tight as they are represented to be.

Mr. DRIVER. The biggest saving was in the rental cost of the equipment itself. We save $1.6 million annually by purchasing. We of course saved a good deal of money by closing the contact offices and there has been, as in keeping with past years, an increase in productivity in several programs that enabled us to save this money.

Mr. JONAS. You don't think you adversely affected any services veterans are entitled to in picking up this $5.8 million?

Mr. DRIVER. No, sir; we don't. We think in fact by increasing the productivity and decreasing the processing time that we have improved services at the same time we have saved money.

Mr. JONAS. I recommend you pursue that effort.

Mr. DRIVER. We certainly intend to. Mr. Kennedy, as you recall, issued a directive to all agencies to concentrate on this. We think within the Veterans' Administration we have had a fine record in the past, but we are certainly going to endeavor to improve it.

BAY PINES HOSPITAL

Mr. JONAS. Mr. Administrator, I want to ask you what you plan to do at Bay Pines, Fla.

Mr. GLEASON. At the moment all we plan to do at Bay Pines, Fla., is put in additional operating suites, making them more modern, Mr. Jonas.

Mr. JONAS. May I read into the record at this point, Mr. Chairman, the statement of the Senate committee?

Mr. THOMAS. Go ahead.

Mr. JONAS. This is in its report last year. I quote from page 21 of the Senate report:

> The committee approves the recommendation of the House Appropriations Committee relative to the earmarking of funds heretofore appropriated for the veterans hospital at Bay Pines, Fla.
>
> The committee further recommends to the Administrator of the Veterans' Administration that technical services contracts for new construction at Bay Pines be let no later than during the calendar year 1963 because of the critical shortage of beds in Florida Veterans' Administration hospitals * * *.

Do you plan to follow that recommendation of the Congress?

Mr. GLEASON. Well, Mr Jonas, I think, sir, this is going to become a very difficult issue for us. As I tried to explain last year before this body, if I was sure a medical school was not going to be established in the St. Petersburg-Tampa area then I would be most happy to go ahead with Bay Pines. But as I tried to bring out last year—and Dr. Middleton has been in touch with the president of the University of Florida of the South—that within the next 5 to 6 years they do plan on originating a medical school in that area.

As I mentioned last year, I think it would be a crime to have a hospital located so far away from a medical school. The advantages that we see in locating them next to medical schools are tremendous. As Mr. Evins knows, our new hospital in Nashville, Tenn., in conjunction with the University of Vanderbilt Medical School is going to aid the veteran so tremendously that I just can't see the necessity of going ahead at this time.

The hospital at Gainesville and the hospital at Miami will be completed within the next few years. The veteran patients within the State of Florida will have more hospital beds than they do now and they will be more modern and up to date.

Mr. JONAS. How far is your Miami site from the medical school?

Mr. GLEASON. Approximately a hundred yards, sir.

Mr. JONAS. Miami University?

Mr. GLEASON. Yes, sir. Our hospital at Gainesville is probably 130 or 140 yards, roughly speaking, from the University of Florida Medical School.

Mr. JONAS. Of course, no one on this committee objects to combining the resources of medical schools with Veterans facilities. We are interested, or at least I am, in knowing what you plan to do concerning the recommendation made to you by Congress. You had this specific recommendation from the committees of Congress, and as I understand your answer you don't plan to do anything this year.

Mr. GLEASON. Congressman, I don't plan to do anything this year unless by chance the president of the university tells me positively that they are not going to have a new medical school.

FLORIDA MEDICAL SCHOOLS

Mr. JONAS. I can't put my finger on the source of the information but I have heard that this issue has been resolved and it has been determined that there will not be a medical school built in the Tampa-St. Petersburg area. Do you have any information on that subject?

Mr. GLEASON. The information that I have, Congressman, is that they are planning on operating one in the next 4 to 5 years.

Mr. JONAS. May I ask Dr. Middleton if he has any concrete information on that?

Dr. MIDDLETON. I have been in touch with President Allen in the past, but I have not been in touch with him since the Florida Board of Education said they were not presently planning on a second State medical school.

Mr. JONAS. When was that decision made?

Dr. MIDDLETON. That decision was made about 10 days ago but I have been in touch with people in that area—I have not been able to get hold of President Allen—and the indication is that this is not a final decision by any manner or means.

Mr. GLEASON. Mr. Jonas, if I might interrupt, sir, for a moment, the decision by the Florida Board of Education was presently—I mean at this particular time, but I am given to understand by people in Florida who have a great deal of influence in the State that 4 to 5 years from now there will be a medical school; but presently; no, sir.

PLANS FOR BAY PINES

Mr. JONAS. So you do not plan to do anything about Bay Pines for 4 or 5 years?

Mr. GLEASON. When you say not do anything about it, Mr. Jonas, we are spending quite a bit of money in updating the hospital surgical suites at Bay Pines. I mean this is a terrific hospital if you have ever been there.

Mr. JONAS. I know it is, and it has the largest waiting list of any hospital in the country, hasn't it?

Mr. GLEASON. I wouldn't say so, sir.

Mr. JONAS. You wouldn't contradict that statement would you?

Mr. GLEASON. Well, no; but I think we can get to the nub of it right here.

Mr. JONAS. Isn't it the choice of all your medical people, Dr. Middleton?

Dr. MIDDLETON. It is the favorite one because of its geographic location.

Mr. BAKER. The waiting list is 583 at December 31 last.

Dr. MIDDLETON. Northport has 2,500, so the Administrator is correct, we have a number higher.

Mr. JONAS. Northport is on Long Island where you plan a 1,000-bed hospital to take care of that situation?

Mr. GLEASON. That is right, sir.

We are planning that hospital as soon as New York tells us where they are going to locate their medical school.

Mr. DRIVER. That is in the same category really as Bay Pines.

Mr. JONAS. You are asking for money here for Long Island, are you not, in this budget?

Mr. GLEASON. This is the same thing you have given us for Bay Pines; yes, sir.

Mr. JONAS. In fact if we give you the money that doesn't mean you are going to spend it?

Mr. GLEASON. Well, I don't want to spend it foolishly, Mr. Jonas. It is the same with Northport, sir. We will have the authorization for the money but that doesn't mean we are going to go ahead and spend it until we find out where the medical school of New York State is going to be located.

Mr. DRIVER. As soon as that decision is made we would like to be in a position to go forward and do something technically rather than have to wait.

Mr. JONAS. Doctor, how many of your installations have larger waiting lists than Bay Pines?

Dr. MIDDLETON. It is the highest among the GM. & S. hospitals, you are right.

Mr. THOMAS. 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.

We had finished the Administrator's statement and general questions.

Mr. Ostertag, did you have any general questions before we go in the specific categories of the budget?

Mr. OSTERTAG. Mr. Chairman, I have no general questions at this time.

Mr. THOMAS. Some of these tables are fabulous. They are very beneficial. They tell the tale but it takes about four of the charts to tell the whole tale. They give a complete breakdown of all the activities and this is the only information in the budget dealing with the grades. For instance, it gives the number of top positions down through GS–15. I think it stops there. Then it lumps in all the remainder.

Let us take a look at chart 1, "Average Employment and Principal Positions as Contemplated in the Fiscal Year 1964 Budget Estimate."

We will take the Office of the Administrator. You give us two conflicting statements. Throughout the budget you give the figure of average employment. In the Information Service you have a total of 43. There are 22 in the departmental and 21 in the field. Your average employment is 39, however.

NUMBER OF SUPERGRADES

How many supergrades are there in the agency?

Mr. MONK. Sixty-three, sir; five GS–18's, nine GS–17's, and forty-nine GS–16's.

Mr. THOMAS. Five GS–18's?

Mr. MONK. Yes. There are 5 GS–18's, 9 GS–17's, and 49 GS–16's.

Mr. THOMAS. How many 15's do you have?

Mr. MONK. We have about 230 grade 15's.

Mr. THOMAS. Do you have any ungraded positions?

Mr. MONK. Only the Administrator and the Deputy.

Mr. THOMAS. And they are statutory?

Mr. MONK. They are statutory, yes, sir. And of course the medical people are under a separate pay system.

COMPARATIVE SUMMARY OF APPROPRIATIONS AND APPROPRIATION ESTIMATES

Mr. THOMAS. Let us put the table on page 2–1 in the record. That is a comparative summary of appropriations and estimates.

(The table referred to follows:)

Comparative summary of appropriations and appropriation estimates

Appropriation title	Fiscal year 1962 appropriations	Fiscal year 1963				Fiscal year 1964 appropriation estimate	Increase (+) or decrease (−), 1964 over 1963
		Appropriated	Supplementals		Total		
			Pay raise	Other			
General operating expenses	$161,773,000	$157,669,000	[1] $3,801,000		$161,470,000	$159,750,000	−$1,720,000
Medical administration and miscellaneous operating expenses	43,876,500	13,772,000	221,000		13,993,000	14,982,000	+989,000
Medical and prosthetic research		30,500,000			30,500,000	33,742,000	+3,242,000
Medical care	989,371,000	1,017,892,000	25,365,000	$6,509,000	1,049,766,000	1,087,688,000	+37,922,000
Subtotal	1,195,020,500	1,219,833,000	29,387,000	6,509,000	1,255,729,000	1,296,162,000	+40,433,000
Compensation and pensions	3,500,000,000	3,832,000,000		42,000,000	3,874,000,000	3,921,000,000	+47,000,000
Readjustment benefits	135,000,000	91,500,000		63,575,000	155,075,000	101,100,000	−53,975,000
Veterans insurance and indemnities [2]	39,200,000	32,000,000			32,000,000	30,200,000	−1,800,000
Grants to the Republic of Philippines	1,000,000	500,000	−193,000		[3] 307,000		−307,000
Construction of hospitals and domiciliary facilities	76,250,000	77,000,000			77,000,000	81,000,000	+4,000,000
Total appropriations [4]	4,946,470,500	5,252,833,000	29,194,000	112,084,000	5,394,111,000	5,429,462,000	+35,351,000

[1] Includes $193,000 proposed transfer from "Grants to the Republic of Philippines" appropriation.

[2] Excludes permanent indefinite, fiscal year 1962, $718,000; fiscal year 1963, $760,000; fiscal year 1964, $800,000.

[3] Excludes $193,000 proposed transfer to "General operating expenses" appropriation.

[4] Excludes direct loan borrowing authority, fiscal year 1962, $500 million; fiscal year 1963, $200 million; fiscal year 1964, $150 million.

NOTE.—The "Medical research" and "Prosthetic testing and development" portions of the "Medical administration and miscellaneous operating expenses" appropriation combined into 1 appropriation "Medical and prosthetic research."

Mr. THOMAS. This gives you a budget this year of $5,429,462,000, which shows an increase of $35,351,000 over last year.

Take a look at the far right-hand column, gentlemen, and you will find the increases and the decreases. In "General operating expenses" it shows a decrease of $1,720,000; in "Medical administration and miscellaneous operating expenses" it shows an increase of $989,000, almost $1 million; in "Medical and prosthetic research" it shows an increase of $3,242,000. Off the record.

(Discussion off the record.)

Gentlemen, here is a good table on page 2–2. The table on 2–3 breaks it down in a little different way. The amount of detail work going in compiling these tables is out of this world. Maybe for our purposes 2–4 is better than 2–3. Let us put 2–2 and 2–4 in the record.

(The tables referred to follow:)

Summary statement of all appropriations—Showing balances forwarded, appropriation accounts, transfers, and obligations for fiscal years 1962, 1963, and 1964

Appropriation	Unobligated balance available July 1, 1961	Fiscal year 1962 actual			
		Appropriated	Adjustments to obligations [1]	Obligations	Unobligated balance June 30, 1962
General operating expenses	----------	$161,773,000	+$193,494	$160,831,365	$(1,135,129)
Medical administration and miscellaneous operating expenses	$14,696	43,876,500	−34,820	41,073,374	(2,767,139)
					15,863
Medical and prosthetic research	----------	----------	----------	----------	----------
Medical care	----------	989,371,000	+4,660,719	993,985,682	(46,037)
Compensation and pensions	213,112,342	3,500,000,000	−2,500,000	3,707,536,448	3,075,894
Readjustment benefits	14,515,225	135,000,000	+2,500,000	150,410,901	1,604,324
Veterans insurance and indemnities	7,480,231	39,200,000	+714,589	41,292,786	6,102,034
Grants to the Republic of the Philippines	----------	1,000,000	----------	359,307	(640,693)
Construction of hospitals and domiciliary facilities	59,775,205	76,250,000	----------	68,753,747	67,271,458
Grand total	294,897,699	4,946,470,500	+5,533,982	5,164,243,610	(4,588,998)
					78,069,573

Appropriation	Unobligated balance available July 1, 1961	Fiscal year 1963 estimated			
		Appropriated	Adjustments to obligations [1]	Obligations	Unobligated balance June 30, 1963
General operating expenses	----------	$157,669,000	+$3,791,000	$161,460,000	----------
Medical administrative and miscellaneous operating expenses	$14,696	13,772,000	+205,137	13,993,000	----------
Medical and prosthetic research	----------	30,500,000	+15,863	30,515,863	----------
Medical care	----------	1,017,892,000	+36,649,000	1,054,541,000	----------
Compensation and pensions	213,112,342	3,832,000,000	+42,000,000	3,877,075,894	----------
Readjustment benefits	14,515,225	91,500,000	+63,575,000	156,679,324	----------
Veterans insurance and indemnities	7,480,231	32,000,000	+760,000	38,747,310	$114,724
Grants to the Republic of the Philippines	----------	500,000	−193,000	307,000	----------
Construction of hospitals and domiciliary facilities	59,775,205	77,000,000	----------	98,000,000	46,271,458
Grand total	294,897,699	5,252,833,000	+146,803,000	5,431,319,391	46,386,182

Footnote at end of table, p. 627.

Summary statement of all appropriations—Showing balances forwarded, appropriation accounts, transfers, and obligations for fiscal years 1962, 1963, and 1964—Continued

Appropriation	Unobligated balance available July 1, 1961	Fiscal year 1964 estimated			
		Appropriated	Adjustments to obligations [1]	Obligations	Unobligated balance June 30, 1964
General operating expenses		$159,750,000	+$40,000	$159,790,000	
Medical administrative and miscellaneous operating expenses	$14,696	14,982,000		14,982,000	
Medical and prosthetic research		33,742,000		33,742,000	
Medical care		1,087,688,000	+5,176,000	1,092,864,000	
Compensation and pensions	213,112,342	3,921,000,000		3,921,000,000	
Readjustment benefits	14,515,225	101,100,000		101,100,000	
Veterans insurance and indemnities	7,480,231	30,200,000	+800,000	31,114,724	
Grants to the Republic of the Philippines					
Construction of hospitals and domiciliary facilities	59,775,205	81,000,000		95,776,000	$31,495,458
Grand total	294,897,699	5,429,462,000	+6,016,000	5,450,368,724	31,495,458

[1] Explanation of adjustments (appropriations to obligations):

	Fiscal year 1962 actual	Fiscal year 1963estimated	Fiscal year 1964estimated
General operating expenses:			
Transfer from "Veterans special term insurance fund"	+$220,512	+$40,000	+$40,000
Transfer to General Services Administration for general purpose space rentals	−27,018	−50,000	
Supplemental (Public Law 87-793 costs)		+3,801,000	
Proposed transfer from "Grants to the Republic of Philippines"		(193,000)	
Medical administration and miscellaneous operating expenses:			
Transfer to General Services Administration for general purpose space rentals	−34,820		
Supplemental (Public Law 87-793 costs)		(+221,000)	
Transfer to "Medical and prosthetic research"		(−15,863)	
Medical and prosthetic research: Transfer from "Medical administration and miscellaneous operating expenses"		+15,863	
Medical care:			
Reimbursements	+4,677,602	+4,850,000	+5,200,000
Supplemental—Wage rate increases and Public Law 87-793 costs		+31,874,000	
Transfers to General Services Administration for general purpose space rentals	−16,883	−75,000	−24,000
Compensation and pensions:			
Transfer to "Readjustment Benefits"	−2,500,000		
Supplemental		+42,000,000	
Readjustment benefits:			
Transfer from "Compensation and Pensions"	+2,500,000		
Supplemental		+63,575,000	
Veterans insurance and indemnities: Permanent indefinite	+714,589	+760,000	+800,000
Grants to the Republic of the Philippines: Proposed transfer to "General operating expenses," due to pay raise		−193,000	
Total	+5,533,982	+146,803,000	+6,016,000

NOTE.—The "Medical research" and "Prosthetic testing and development" portions of the "Medical administration and miscellaneous operating expenses" appropriation combined into 1 appropriation "Medical and prosthetic research."

Summary of costs by object, fiscal years 1962, 1963, and 1964

FISCAL YEAR 1962 ACTUAL

Appropriation	Personal services and benefits		Consultants (included in 10)		Contractual services and supplies							
	Average employment	Amount	Average employment	Amount	21 Travel and transportation of persons		22 Transportation of things	23 Rents, communications and utilities	24 Printing and reproduction	25 Other services		26 Supplies and materials	
					Employees	All other				Medical and dental fees	Other	Provisions	Other
General operating expenses	20,520	$137,324,038			$2,037,276	$240,188	$330,726	$6,928,041	$1,678,934		$3,975,743		$2,202,557
Medical, administrative, and miscellaneous operating expenses	3,527	26,566,773	45	$484,785	1,550,981	892	79,912	260,808	220,244		3,042,150		3,533,020
Medical care	130,612	774,611,442	1,106	10,258,240	746,848	8,472,146	1,900,226	18,225,836	1,064,213	$10,393,480	30,799,459	$46,278,049	88,693,292
Compensation and pensions													
Readjustment benefits													
Veterans' insurance and indemnities													
Grants to the Republic of the Philippines													
Construction of hospital and domiciliary facilities	350	3,032,300			88,237		310	13,798	8,667		3,833,325		527,579
Total, fiscal year 1962 actual	155,009	941,534,553	1,151	10,743,025	5,323,342	8,713,226	2,311,174	25,428,483	2,972,058	10,393,480	41,650,677	46,278,049	94,956,448

Appropriation	Acquisition of capital assets			Grants and fixed charges		Total operating costs	Less quarters, subsistence, and laundry	Total funded costs
	31 Equipment	32 Lands and structures	Investments and loans	41 Grants, subsidies, and contributions	42 Insurance claims and indemnities			
General operating expenses	$3,988,796			$1,086,303	$83,851	$160,776,453		$160,776,453
Medical administrative and miscellaneous operating expenses	5,323,014	$321,750				40,899,544		40,899,544
Medical care	12,985,111	1,749,060		7,365,937		1,003,285,099	$8,793,930	994,491,169
Compensation and pensions					3,702,328,569	3,702,328,569		3,702,328,569
Readjustment benefits				146,370,742	4,188,052	150,558,794		150,558,794
Veterans' insurance and indemnities			$47,885	8,351,267	32,893,634	41,292,786		41,292,786
Grants to the Republic of the Philippines				359,307		359,307		359,307
Construction of hospital and domiciliary facilities	3,295,615	41,016,014				51,815,845		51,815,845
Total, fiscal year 1962 actual	25,592,536	43,086,824	47,885	163,533,556	3,739,494,106	5,151,316,397	8,793,930	5,142,522,467

FISCAL YEAR 1963 ESTIMATE

Appropriation	Personal services and benefits		Consultants (included in 10)		Contractual services and supplies						
					21 Travel and transportation of persons		22 Transportation of things	23 Rents, communications and utilities	24 Printing and reproduction	25 Other services		26 Supplies and materials	
	Average employment	Amount	Average employment	Amount	Employees	All other				Medical and dental fees	Other	Provisions	Other
General operating expenses [1]	19,395	$138,400,769			$3,177,554	$326,000	$384,739	$5,996,246	$1,820,300		$4,250,957		$1,940,825
Medical, administrative, and miscellaneous operating expenses [2]	1,059	10,910,000	11	$215,000	1,554,000		59,000	165,000	217,000		740,000		331,000
Medical and prosthetic research	2,833	19,566,000	36	307,000	291,000	2,000	45,000	54,000	48,000		2,406,863		3,300,000
Medical care [3]	131,897	824,579,000	1,116	10,360,000	871,000	8,692,000	1,953,000	19,290,000	1,084,000	$10,277,000	30,454,000	$46,491,000	90,210,000
Compensation and pensions [4]													
Readjustment benefits [5]													
Veterans insurance and indemnities													
Grants to the Republic of the Philippines													
Construction of hospital and domiciliary facilities	379	3,425,000			120,000		2,000	15,000	14,000		4,319,300		525,000
Total, fiscal year 1963 estimate	155,563	996,880,769	1,163	10,882,000	6,013,554	9,020,000	2,443,739	25,520,246	3,183,300	10,277,000	42,171,120	46,491,000	96,306,825

Appropriation	Acquisition of capital assets			Grants and fixed charges		Total operating costs	Less quarters, subsistence, and laundry	Total funded costs
	31 Equipment	32 Lands and structures	Investments and loans	41 Grants, subsidies, and contributions	42 Insurance claims and indemnities			
General operating expenses[1]	$3,831,455			$1,000,000	$331,155	$161,460,000		$161,460,000
Medical, Administrative and miscellaneous operating expenses[2]	67,000					14,043,000		14,043,000
Medical and prosthetic research	4,620,000	$325,000				30,657,863		30,657,863
Medical Care[3]	19,993,000	1,959,000		7,460,000		1,063,313,000	$8,772,000	1,054,541,000
Compensation and pensions[4]					3,877,075,894	3,877,075,894		3,877,075,894
Readjustment benefits[5]				93,077,324	63,602,000	156,679,324		156,679,324
Veterans' insurance and indemnities			$85,000	11,920,000	26,742,310	38,747,310		38,747,310
Grants to the Republic of the Philippines				307,000		307,000		307,000
Construction of hospital and domiciliary facilities	3,608,900	62,595,800				74,625,000		74,625,000
Total, fiscal year 1963 estimate	32,120,355	64,879,800	85,000	113,764,324	3,967,751,359	5,416,908,391	8,772,000	5,408,136,391

[1] Includes $3,801,000 supplemental for increases due to Public Law 87-793.
[2] Includes $221,000 supplemental for increases due to Public Law 87-793.
[3] Includes $31,874,000 supplemental for wage rate increases plus increases due to Public Law 87-793.
[4] Includes $42,000,000 supplemental for increased pension payments and subsistence allowance.
[5] Includes $63,757,000 supplemental for education and training, vocational rehabilitation and transfer to loan guarantee revolving fund.

NOTE.—The "medical research" and "prosthetic testing and development" portions of the medical administration and miscellaneous operating expenses appropriation combined into one appropriation "Medical and prosthetic research."

FISCAL YEAR 1964 ESTIMATE

Appropriation	Personal services and benefits		Consultants (included in 10)		Contractual services and supplies							
					21 Travel and transportation of persons		22 Transportation of things	23 Rents, communications, and utilities	24 Printing and reproduction	25 Other services		26 Supplies and materials	
	Average employment	Amount	Average employment	Amount	Employees	All other				Medical and dental fees	Other	Provisions	Other
General operating expenses	18,661	$140,263,011			$3,046,224	$360,000	$343,963	$5,880,242	$1,748,100		$4,580,589		$1,936,081
Medical, administrative, and miscellaneous operating expenses	1,104	11,998,000	11	$215,000	1,660,000		40,000	162,000	216,000		665,000		191,000
Medical and prosthetic research	3,012	21,814,000	36	308,000	304,000	2,000	47,000	56,000	53,000		2,469,000		3,340,000
Medical care	132,447	858,342,000	1,117	10,430,000	883,000	8,741,000	1,986,000	20,227,000	1,091,000	$10,332,000	30,515,000	$46,887,000	92,426,000
Compensation and pensions													
Readjustment benefits													
Veterans' insurance and indemnities													
Construction of hospital and domiciliary facilities	379	3,587,000			120,000		2,000	15,000	12,000		5,295,000		525,000
Total, fiscal year 1964 estimate	155,603	1,036,004,011	1,164	10,953,000	6,013,224	9,103,000	2,418,963	26,340,242	3,120,100	10,332,000	43,524,589	46,887,000	98,418,081

Appropriation	Acquisition of capital assets			Grants and fixed charges		Total operating costs	Less quarters, subsistence, and laundry	Total funded costs
	31 Equipment	32 Lands and structures	Investments and loans	41 Grants, subsidies, and contributions	42 Insurance claims and indemnities			
General operating expenses	$646,790			$900,000	$85,000	$159,790,000		$159,790,000
Medical, administrative and operating expenses	50,000					14,982,000		14,982,000
Medical and prosthetic research	5,327,000	$330,000				33,742,000		33,742,000
Medical care	20,783,000	1,955,000		7,481,000		1,101,649,000	$8,785,000	1,092,864,000
Compensation and pensions					3,921,000,000	3,921,000,000		3,921,000,000
Readjustment benefits				60,671,000	40,429,000	101,100,000		101,100,000
Veterans' insurance and indemnities			$95,000	11,450,000	19,569,724	31,114,724		31,114,724
Construction of hospitals and domiciliary facilities	5,427,000	62,795,000				77,778,000		77,778,000
Total, fiscal year 1964 estimate	32,233,790	65,080,000	95,000	80,502,000	3,981,083,724	5,441,155,724	8,785,000	5,432,370,724

Mr. THOMAS. How many 15's did you say you had?
Mr. UNDERWOOD. About 230.

FIELD OFFICES

Mr. THOMAS. How many regional offices do we have? I notice you call them field offices. How many do you have?
Mr. BROWNSTEIN. Sixty-seven.
Mr. THOMAS. Where are they located? Do you have a list or a map showing where they are located by States?
Mr. BROWNSTEIN. Yes, sir.
Mr. THOMAS. How many do you have outside the continental United States?
Mr. DRIVER. Four.
Mr. THOMAS. Where are they?
Mr. DRIVER. Hawaii, Juneau, Manila, and Puerto Rico.

VA OFFICE IN ROME

Mr. OSTERTAG. There has been some talk about a VA office in Rome.
Mr. GLEASON. Yes, sir.
Mr. OSTERTAG. Is that a regional office?
Mr. GLEASON. That will be an office similar to the one we have in Manila.
Mr. DRIVER. It is more of a coordinating office than a processing office, attempting to get all the Embassy people who handle our work to handle it in a similar fashion. We will have a small staff in Rome to explain it to them.
Mr. GLEASON. We chose Rome because Greece and Italy are the places where most of the pensioners we referred to this morning reside.
Mr. OSTERTAG. Where will the cost or expense of that office appear in the justifications?
Mr. DRIVER. Under the central office. It is just barely getting underway at the moment with only three people involved.
Mr. GLEASON. The Congress only authorized it in the closing days of the last session, Mr. Ostertag.

TOTAL VA EMPLOYMENT—1947 TO 1964

Mr. THOMAS. I thought I saw a figure of your overall employment but I cannot put my finger on it right now.
Mr. DRIVER. The chart on 2–6.
Mr. MONK. 2–5 goes clear back to 1947.
Mr. THOMAS. Let us put 2–5 in the record. This is the overall employment figure from fiscal 1947 through fiscal 1964.
(The table referred to follows:)

Comparison of average employment from fiscal year 1947 through fiscal year 1964

Program or appropriation	Fiscal year 1947 actual	Fiscal year 1948 actual	Fiscal year 1949 actual	Fiscal year 1950 actual	Fiscal year 1951 actual	Fiscal year 1952 actual	Fiscal year 1953 actual	Fiscal year 1954 actual	Fiscal year 1955 actual
General administration	(1)	(1)	(1)	(1)	(1)	(1)	3,063	2,555	2,288
Department of Veterans' Benefits	(1)	(1)	(1)	(1)	(1)	(1)	25,847	24,306	22,806
Department of Insurance	(1)	(1)	(1)	(1)	(1)	(1)	11,103	9,481	7,620
General operating expenses, subtotal	106,684	88,619	80,071	68,990	61,277	48,676	40,013	36,342	32,714
Medical administration	3,617	3,015	2,714	1,603	1,430	1,424	1,460	1,313	1,185
Prosthetic testing and development						12	12	19	23
Medical research		77	240	371	422	384	518	661	737
Medical administration and miscellaneous operating expenses, subtotal	3,617	3,092	2,954	1,974	1,852	1,820	1,990	1,993	1,945
Medical and prosthetic research									
Maintenance and operation of hospital	78,992	85,892	92,077	97,860	99,523	105,182	105,435	111,860	112,914
Maintenance and operation of domiciliaries	5,087	2,966	3,632	4,021	4,042	4,192	4,198	3,859	4,019
Inpatient care, subtotal	84,079	88,858	95,709	101,881	103,565	109,374	109,633	115,719	116,933
Outpatient care	9,025	11,793	12,837	12,179	10,717	9,907	11,325	10,392	9,525
Medical care, subtotal									
Maintenance and operation of supply depots	746	945	906	716	538	482	476	405	336
Medical program, subtotal	97,467	104,688	112,406	116,750	116,672	121,583	123,424	128,509	128,739
Total	[2] 204,151	193,307	192,477	185,740	177,949	170,259	163,437	164,851	161,453

See footnotes at end of table, p. 636.

Comparison of average employment from fiscal year 1947 through fiscal year 1964—Continued

Program or appropriation	Fiscal year 1956 actual	Fiscal year 1957 actual	Fiscal year 1958 actual	Fiscal year 1959 actual	Fiscal year 1960 actual	Fiscal year 1961 actual	Fiscal year 1962 actual	Fiscal year 1963 estimated	Fiscal year 1964 estimated
General administration	1,949	1,762	1,455	1,479	1,470	1,459	1,453	1,510	1,502
Department of Veterans' Benefits	21,766	20,606	18,913	18,136	17,203	16,074	15,628	14,842	14,518
Department of Insurance	6,128	5,446	4,734	4,301	4,122	3,814	3,439	3,043	2,641
General operating expenses, subtotal	29,843	27,814	25,102	23,916	22,795	21,347	20,520	19,395	18,661
Medical administration	1,120	1,054	1,026	916	939	1,006	1,011	1,048	1,093
Prosthetic testing and development	22	18	22	24	25	26	29	----------	----------
Medical research	787	1,030	1,286	1,518	1,778	2,032	2,442	----------	----------
Medical administration and miscellaneous operating expenses, subtotal	1,929	2,102	2,334	2,458	2,742	3,064	3,482	1,048	1,093
Medical and prosthetic research	----------	----------	----------	----------	----------	----------	----------	2,797	2,976
Maintenance and operation of hospitals	115,360	116,038	114,835	113,670	114,295	115,303	117,945	118,934	119,500
Maintenance and operation of domiciliaries	3,921	3,891	3,876	3,861	3,913	3,979	3,819	3,951	3,906
Inpatient care, subtotal	119,281	119,929	118,711	117,531	118,208	119,282	121,764	122,885	123,406
Outpatient care	8,965	8,526	8,189	7,842	7,719	7,780	7,742	7,896	7,924
Medical care, subtotal	----------	----------	----------	----------	----------	----------	129,506	130,781	131,330
Maintenance and operation of supply depots	326	328	332	363	361	370	----------	----------	----------
Medical program, subtotal	130,501	130,885	129,566	128,194	129,030	130,496	132,988	134,626	135,399
Total	160,344	158,699	154,668	152,110	151,825	151,843	153,508	154,021	154,060
Consultants [3]	----------	----------	----------	----------	1,193	1,218	1,151	1,163	1,164
Construction of hospital and domiciliary facilities	----------	----------	----------	----------	271	300	350	379	379
Subtotal, paid from appropriations	----------	----------	----------	----------	153,289	153,361	155,009	155,563	155,603
Supply fund	----------	----------	----------	----------	243	229	586	606	611
Canteen service	----------	----------	----------	----------	2,625	2,690	2,875	2,892	2,905
Grand total	----------	----------	----------	----------	156,157	156,280	158,470	159,061	159,119

[1] Due to reorganization, comparative employment by the new organizational elements in the appropriation "General operating expenses" for fiscal years 1947 through 1952 is not available.

[2] The peak VA employment (full-time equivalent) was in February 1947.

[3] Excludes consultants except as specifically identified.

NOTE.—The medical research and prosthetic testing and development portions of the "Medical administration and miscellaneous operating expenses" appropriation combined into 1 appropriation "Medical and prosthetic research."

EMPLOYMENT LEVELS IN PRIOR YEARS

Mr. THOMAS. Who was the Administrator in 1947?

Mr. GLEASON. General Bradley.

Mr. THOMAS. He came back right after the war. As a matter of fact, he was appointed Administrator late in 1945, was he not?

Mr. DRIVER. August 1945.

Mr. THOMAS. If I am not mistaken, in fiscal 1946 he had in the neighborhood of 220,000 employees?

Mr. BAKER. 226,000 approximately, in February 1947.

Mr. THOMAS. 1947 or 1946?

Mr. DRIVER. 1947.

Mr. THOMAS. In 1948 it dropped down to 193,307, and it is going down, going down, and in 1960 you had 151,825; in 1961, 151,843; in 1962, 153,508; in 1963, 154,021; and in 1964, 154,060.

PERSONNEL IN FIELD OFFICES

In your 67 field offices, give us a green sheet breakdown of your personnel in each office. Do you have that available?

Mr. DRIVER. We will have to supply that.

(The information supplied follows:)

Grade structure

AVERAGE REGIONAL OFFICE

Grade:	*Number*	Grade—Continued	*Number*
15	1	6	7
14	3	5	32
13	7	4	63
12	29	3	28
11	18	2	8
10	10	1	2
9	27		
8	8	Total	252
7	9		

SMALL REGIONAL OFFICE

Grade:	*Number*	Grade—Continued	*Number*
14	1	6	5
13	3	5	4
12	5	4	9
11	7	3	12
10	2	2	0
9	8	1	0
8	2		
7	0	Total	58

GRADE LEVELS IN REGIONAL OFFICES

Mr. THOMAS. Do you have any supergrades in your regional offices?

Mr. MONK. In eight offices the manager is grade 16, in San Francisco, Newark, St. Paul, Los Angeles, Chicago, Washington, New York, and Detroit.

Mr. THOMAS. What about your chief attorney?

Mr. DRIVER. They range from GS–15 to GS–13.

Mr. THOMAS. In the other 59 regional offices what are your managers there?

Mr. DRIVER. The lowest is GS–14 and the rest are GS–15's.

Mr. THOMAS. In the eight offices you mentioned the workload is larger?

Mr. DRIVER. Much larger.

Mr. THOMAS. What is the typical pattern?

Mr. DRIVER. The chief attorney, the compensation and pensions program——

Mr. THOMAS. What is his classification?

Mr. DRIVER. It ranges from GS–15 to GS–14 and GS–13.

Mr. THOMAS. Go ahead.

Mr. DRIVER. The Loan Guaranty Division, the Education Division——

Mr. THOMAS. What are the chiefs of those divisions?

Mr. DRIVER. GS–14's to GS–13's. We have about 35 of them left. We have consolidated the rest in larger regional offices.

Mr. THOMAS. Do you have that same pattern in all of your regional offices?

Mr. DRIVER. Yes.

Mr. THOMAS. What about the Loan Guaranty?

Mr. DRIVER. The range is the same, GS–15 to GS–13, with the general run being in GS–14 or GS–15. And we have consolidated as the workload has gone down. Then we have supporting programs personnel.

COST OF PAY INCREASE AND AMOUNT ABSORBED

Mr. THOMAS. What did the pay increase cost you this year?

Mr. MONK. $32 million total for fiscal 1963.

Mr. THOMAS. I mean 1964?

Mr. MONK. $60 million.

Mr. THOMAS. Will you be able to absorb any of that $60 million?

Mr. GLEASON. The way we have it figured right now, Mr. Chairman, no, but we will try.

Mr. THOMAS. You absorbed $12 million of your $32 million in 1963?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. How did you make up your $12 million? You gave that in your original statement, but let us get it in the record at this point.

Mr. MONK. We had actual cash absorptions of $5.4 million. We applied $3,247,000 to the pay raise itself, and applied $2,182,000 to the wage board increases, and then we absorbed unbudgeted costs of $6,794,000, which makes up the $12,223,000 that we absorbed.

TOTAL VA VACANCIES

Mr. THOMAS. Of your 154,060 positions for 1963, how many unfilled vacancies did you have as of February 1 or some recent date?

Mr. UNDERWOOD. I do not have the total but I have it in shortage category groups—physicians, nurses, psychologists, dietitians, social workers, therapists, and engineers.

Mr. THOMAS. Out of 154,000 jobs for 1963, how many unfilled vacancies did you have?

Mr. MONK. Approximately 1,400.

Mr. THOMAS. What is your figure, Mr. Controller?

Mr. HANSMAN. We are comparing those figures?

Mr. THOMAS. We are talking about January 1 or February 1. How many unfilled jobs did you have at that time?

Mr. MONK. 1,400.

Mr. OSTERTAG. As of when?

Mr. MONK. December 31, 1962.

Mr. THOMAS. What page is that on?

Mr. MONK. That is not in your book, sir.

Mr. THOMAS. Come up with the best figure you can.

Mr. MONK. 1,400.

Mr. DRIVER. 1,432.

Mr. THOMAS. How long have you had those 1,432 vacancies?

Mr. GLEASON. Since the appropriations were passed late in the last session; these are the ones we are anxious to fill.

Mr. THOMAS. You received your appropriation in October.

Mr. GLEASON. It is pretty hard, Mr. Chairman, to program——

Mr. THOMAS. You had October, November, December, and January. You had 4 months.

Mr. MONK. We have a turnover of about 2 percent a month, Mr. Chairman, so at any given time there will be vacancies.

Mr. THOMAS. Is that the way you come up with that figure of 1,400?

Mr. MONK. No. If you used 2 percent it would run about 3,000, but they are not all vacant at any one time. And of course we compute our requirements on the basis of the average employment for the year, which takes into account those vacancies that occur throughout the year.

Mr. THOMAS. If you would put down specific jobs we could sort of keep up with it.

VACANCIES BY JOB CATEGORIES

Mr. GLEASON. I think Mr. Underwood can give the figures as to the job categories we are short in and that we need.

Mr. THOMAS. That might be helpful. Tell us about it.

Mr. UNDERWOOD. In positions—and these are rounded figures as of December 31—we have about 5,000 on duty and we have vacancies of about 350.

In nurses we have about 14,500 on duty and we have vacancies of about 250.

In psychologists we have about 1,000 on duty and we have about 80 vacancies.

In dietitians we have about 1,000 on duty and about 40 vacancies.

In social workers we have about 1,600 on duty and about 75 vacancies.

In therapists, occupational and physical, we have about 1,100 on duty and about 75 vacancies.

And in engineers we have about 450 on duty and about 30 vacancies.

Those we consider our principal shortage categories.

Mr. THOMAS. That is the Department of Medicine and Surgery. What about the other departments?

Mr. DRIVER. There would be very few vacancies in those because the employment has been on the decline rather than the increase. We absorb most of the reductions by attrition.

Mr. UNDERWOOD. The engineers are in the Office of Construction, and at medical field stations.

Mr. DRIVER. But vacancies occur primarily in the Department of Medicine.

Mr. JONAS. Do you have a record that shows what your unfilled positions amounted to at the end of each month since the fiscal year began?

Mr. GLEASON. I do not think we have that here.

Mr. UNDERWOOD. No.

Mr. OSTERTAG. The Administrator referred to the appropriation for the fiscal year, associating it with the 1,400 vacancies.

Mr. GLEASON. Yes.

Mr. OSTERTAG. What is the significance of your statement on that?

Mr. GLEASON. The significance is that until we know definitely we will receive certain appropriations it is difficult for us to hire and recruit these people until it is actually passed.

Mr. THOMAS. Mr. Administrator, you have had 1963 funds for the last 4 months and before that you were operating under a continuing resolution, so you had all the funds you needed.

Mr. GLEASON. We had a continuing resolution, that is true, Mr. Chairman, but we did not have the final appropriation so that Dr. Middleton and the Department of Medicine and Surgery could not go on a recruitment program to recruit these doctors and technicians.

Mr. THOMAS. You say you have a 2-percent monthly turnover in the agency?

Mr. GLEASON. This is the only way we have an opportunity of reducing the administrative costs, through attrition, and this 2 percent helps us throughout the agency.

Mr. DRIVER. In the hospital program we have a large number of low-grade employees and your turnover is larger among those employees.

Mr. JONAS. Mr. Chairman, could I ask a question at this point?

Mr. THOMAS. Yes.

VACANCY RATE

Mr. JONAS. Is the vacancy rate that exists currently caused by the President's directive last October to absorb this pay increase?

Mr. GLEASON. I do not think so, Mr. Jonas.

Mr. JONAS. Is there any relationship between that order and this vacancy rate?

Mr. GLEASON. No, I do not think so, because this vacancy rate of approximately 1,400 people are people we really need in our hospital program.

Mr. JONAS. Has that been a constant thing?

Mr. GLEASON. That has been a constant thing for some time, yes.

Mr. JONAS. So a 1,400 figure is not unusual?

Mr. GLEASON. I do not know about the 1,400 as to whether that is unusual.

Mr. JONAS. Maybe Dr. Middleton could throw some light on that.

Dr. MIDDLETON. We do encounter difficulty in critical categories when we come to a delay in funds because we must operate under the level of the last appropriation until new funds are available. We cannot go out on promise and pick up psychiatrists and others.

Mr. JONAS. Did you have that shortage of 1,400 in the other years?

Dr. MIDDLETON. No. The average would be below 1,400, but certainly it would be a considerable number.

Mr. MONK. I think we should make it clear we do not operate on a table of organization. We operate on an average employment basis, which means we go up and down but average out over the year. When we compute our budgetary requirements we take into consideration the fact that there will be positions vacant for which we are not paying salaries all the time, and this is computed in the average employment figure. So, it is very difficult for us to say at any given time that we have "x" number of vacant positions.

UNOBLIGATED BALANCES

Mr. THOMAS. What was your unobligated balance, first, throughout the agency in 1962?

Mr. MONK. $82,648,000.

Mr. THOMAS. Break it down.

Mr. MONK. General operating expenses, $1,135,000; medical administration and miscellaneous operating expenses, $2,767,000; medical and prosthetic research, $16,000; medical care, $46,000; compensation and pensions, $3,076,000; construction, $67,271,000; veterans' insurance claims and indemnities, $6,102,000; readjustment benefits, $1,604,000; grants to the Philippines, $641,000.

Mr. OSTERTAG. These are total figures in regard to those programs?

Mr. MONK. Yes, sir.

Mr. THOMAS. Repeat your figure for General Operating Expenses?

Mr. MONK. $1,135,000.

VACANCY RATE

Mr. OSTERTAG. On this subject, do I understand correctly that you figure on an average of 2 percent across-the-board vacancies in personnel?

Mr. MONK. Approximately a 2 percent turnover, Mr. Ostertag.

Mr. OSTERTAG. What percentage do you figure on vacancies?

Mr. MONK. We do not compute the percentage of vacancies because we do not have a set number of positions.

Mr. OSTERTAG. But 2,000 is better than 3,000 in personnel, is it not?

Mr. DRIVER. Right, but they are coming and going all the time.

Mr. MONK. The job may be vacant a day or a month.

Mr. OSTERTAG. You mean there is no way of determining the average number of personnel vacancies that exist throughout the year? You have vacancies that occur by virtue of normal circumstances?

Mr. MONK. That is right.

Mr. OSTERTAG. Do we have a picture of how many positions are budgeted or programed that you never fill on an average throughout the year?

Mr. BROWNSTEIN. In the Department of Veterans' Benefits we, of course, have contracting programs. To illustrate, our estimate for 1963, the average employment estimate, is 15,506. Our July through December average employment was 15,578, which is 72 in excess of our average employment for the entire year. This means that in the last 6 months we will have to reduce by roughly 145 people in order to come up to our average employment of 15,506. So to say that a certain number of these positions is vacant would not mean much.

FIELD AND CENTRAL OFFICE EMPLOYMENT

Mr. THOMAS. What is the ratio of employment in the field to the Washington office out of your total of 155,000?

Mr. DRIVER. About 150,000 in the field.

Mr. THOMAS. In the field?

Mr. DRIVER. Yes.

Mr. THOMAS. And about 5,000 in the District of Columbia?

Mr. DRIVER. Yes, sir.

TURNOVER OF PERSONNEL

Mr. THOMAS. What is the ratio of turnover in the two locations, the field and Washington?

Mr. MONK. It would be greater in the field primarily because of the low-grade employees in the hospitals, housekeeping and food service, and laundry employees.

Mr. UNDERWOOD. It is true we are averaging 2 percent a month or 24 percent a year turnover on all our employees and the turnover for the Government as a whole is only about 21 percent.

Mr. THOMAS. How much?

Mr. UNDERWOOD. 20.9 percent. But if you take full time as one group and part time as another it shows a different thing.

Among full-time employees we have a turnover of only 17.8. What causes our big statistical figure is our higher use of part-time employees—13.8 percent of our people, which are part time, are giving us 36 percent of our total separations, and that is because we use quite a few part-time employees in food handling and other categories.

Mr. THOMAS. The general figure throughout the Government was 18 percent, was it not? This year the Civil Service Commission tells us it will be about 16 percent.

PAY INCREASE BY GRADE

Mr. THOMAS. Tell us about the pay increase, comparing 1963 to 1964, and tell us how much of an increase per job it was. Was it 15 percent? Does it average that?

Mr. MONK. No, between 5 and 10 percent.

Mr. SHYTLE. We have a table that shows that.

Mr. THOMAS. Where is that table?

Mr. SHYTLE. It is a supplemental sheet.

Mr. THOMAS. Is this out of your book or Dr. Monk's?

Mr. SHYTLE. It is out of his.

Mr. THOMAS. That was a sliding scale increase, was it not?

Mr. SHYTLE. Yes, sir.

Mr. THOMAS. Give us a little quick rundown. What you have here is not a percentage increase, it shows the dollar increase?

Mr. DRIVER. That is right.

Mr. THOMAS. In grade 1 what was the increase? Do you have that?

Mr. SHYTLE. We did not percentage it out.

Mr. THOMAS. Can you figure it approximately and then correct the record? Then I will ask you about your ingrade steps and then I am going to ask you about your benefits.

Mr. UNDERWOOD. I have the material on the benefits now.

Mr. THOMAS. Can you give us some reasonably accurate figures and then you can straighten it out. We want to see who got this increase.

In your grade 1, who are these and what was the increase? Who are your grade 1 people? What do they do?

Mr. UNDERWOOD. For all practical purposes we do not have grade 1, sir.

Mr. THOMAS. You do not have any grade 1's?

Mr. UNDERWOOD. No, not exactly. There are very few in the Government as a whole. We have about 300.

Mr. THOMAS. What about your next grade, grade 2?

Mr. UNDERWOOD. The new salary range is $3,560 to $4,505.

Mr. THOMAS. Are there quite a few of those?

Mr. UNDERWOOD. Yes.

Mr. THOMAS. What is the percentage increase in pay? What is the overall increase?

Mr. MONK. That would be roughly 5 percent.

Mr. UNDERWOOD. About 2 percent for grade 2.

Mr. THOMAS. What about your grade 3, from $3,820 to $4,830?

Mr. DRIVER. The increase was from $3,760 to $3,820. The two figures are the range in the present salary.

Mr. THOMAS. How much of an increase was that?

Mr. DRIVER. Slightly less than 2 percent. Grade 4 went from $4,040 to $4,110, less than 2 percent.

Mr. THOMAS. That is grade 4?

Mr. DRIVER. Yes.

Mr. THOMAS. What about grade 5?

Mr. DRIVER. The first step rate went from $4,345 to $4,565.

Mr. THOMAS. How much of a percentage increase is that?

Mr. DRIVER. About 5 percent.

Mr. THOMAS. What are their duties mainly?

Mr. BROWNSTEIN. High grade clerical.

Mr. UNDERWOOD. Those would be supervisors of lower clerical or clerks of a specialized type.

Mr. THOMAS. They got a 5-percent increase?

Mr. UNDERWOOD. Approximately, yes.

Mr. DRIVER. Your average general operating expenses grade is 6.6; and your average medical care grade, not counting professional, is 4.7. Your average medical administration and miscellaneous operating expenses grade is 9.3; medical and prosthetic research, the average grade is 7.0; construction, 9.0; supply fund 6.3.

Mr. THOMAS. What would it average out throughout the agency, the increase? I am asking for the sum total 1963 and 1964. What is the package increase?

Mr. MONK. About 7.5 percent overall.

Mr. DRIVER. For everybody.

Mr. THOMAS. But who got the biggest increase?

Mr. MONK. Grade 15 was the biggest increase.

Mr. THOMAS. What was it in grades 12, 13, and 14?

Mr. MONK. Grade 14 averaged about 7.6 percent; grade 13 got an average increase of about 10 percent; grade 12 got about 6.7 percent on the average.

Mr. THOMAS. And when you get up to grade 15 it totaled 15 to 20 percent, did it not?

Mr. MONK. About 8.1 percent for grade 15. Grades 16, 17, and 18 it was not that much.

Mr. THOMAS. The supers, what did they average?

Mr. DRIVER. About 7 percent.

Mr. THOMAS. More than that. It was nearer 12 percent, was it not?

Mr. DRIVER. The 16's got a $750 increase. They would average about 7½ percent in the three grades of the supers.

Mr. THOMAS. The sum total for 1963 and 1964?

Mr. BROWNSTEIN. That is the total. They do not get it in 1964.

Mr. DRIVER. They stopped with one adjustment.

Mr. THOMAS. I was talking about the whole package deal. The first step of a 15 went from $13,730 to $15,665 or 14.1 percent and the top step went from $15,810 to $19,270 or 21.2 percent. This includes both increases. You are right the supers got only one increase.

AUTOMATIC IN-GRADE INCREASES

What about your automatic grade increases? What did they cost for fiscal 1964?

Mr. MONK. About $9 or $10 million.

Mr. THOMAS. That will be every year?

Mr. MONK. Yes, sir.

Mr. THOMAS. How does it work? What does the law say?

Mr. MONK. The law says that the individual will be entitled to an in-grade increase if his performance on the job has been at an acceptable level of competence.

Mr. THOMAS. What is the automatic in-grade step each year?

Mr. MONK. It varies with the grade and the time also varies within the grade.

Mr. THOMAS. A grade 15, the automatic step will be more than a grade 10.

Mr. MONK. That is right.

Mr. THOMAS. What would an automatic grade increase for 15 be? What would it be for a 10?

Mr. DRIVER. About $500 for grade 15, and about $250 for grade 10.

Mr. UNDERWOOD. For grade 15 it goes from $14,565 in the first step to $15,045 in the second.

Mr. MONK. $480 is in the 15.

Mr. THOMAS. What would it be in the popular lower grades, say your grade 7?

Mr. MONK. In the 7's it would be $185.

Mr. THOMAS. Those automatic steps are quite sizable. They ought to be quite a morale booster.

Mr. MONK. Yes, sir.

Mr. THOMAS. It costs the Veterans' Administration every year between $9 and $10 million.

Mr. MONK. That is about right, sir.

EFFECT OF INCREASED IN-GRADE SALARIES

Mr. THOMAS. Mr. Personnel Manager, how does this pay increase bill work with you? Do your people like it? Will it help you to cut down your 2-percent monthly turnover, which is quite expensive and quite large?

Mr. UNDERWOOD. Yes. I think it will and if we properly administer this bill it will do more than that. I think it will increase productivity. You referred to the automatic increases. One of the points of that bill is not to make those automatic but rather to require an acceptable level of competence before they get it. Instead of being automatic they must earn it, therefore. There are a number of situations in which they will not be automatic.

QUALIFICATION FOR IN-GRADE PROMOTIONS

Mr. THOMAS. If the employment was at an unacceptable level why weren't they dismissed?

Mr. UNDERWOOD. I think there is a difference. It is a margin where they won't get an automatic increase that is the difference between totally unsatisfactory where we discharge them and between those that we consider fully satisfactory, and, of course, that is rather difficult to define. But then there are a number of them who will not get it. We have already had 12 of them in the central office who have not received them. One who did not get it retired, another one transferred laterally, and another resigned.

Mr. THOMAS. Who is going to hand out those automatic grade increases?

Mr. UNDERWOOD. Those must be certified by the person who knows his work best, his immediate supervisor. They have to certify in each case now, which is an element that did not exist previously.

Mr. THOMAS. You are going to get more politics inside of an organization than there is up here on the floor of the House.

Mr. UNDERWOOD. It is true that can be a pretty severe jolt because in one sense of the word it is a harder jolt than a reprimand or certain other types of adverse actions, because it goes into his record and shows that for the past period of time he has not been performing at an acceptable level. That is kind of a hard thing for him to carry in his record; but the very fact that a few do not get it, I think, is a pretty good spur to all the rest of them, even if they do get it. There are a few examples of types of performance for which we do not intend to give within grades.

Mr. THOMAS. Which, for instance?

Mr. UNDERWOOD. One would be where his past work had been satisfactory but had fallen off since his last rating; another would be where his work is marginal and barely satisfactory but not fully un-

satisfactory; another is where he has been meeting minimum requirements but he always seems to be avoiding ever doing anything above a bare minimum and another is where his total amount of work is adequate but he is so careless that you really cannot depend upon his work and it takes an unnecessary amount of supervision, or in cases where he has been notified of unsatisfactory work, leading toward discharge. In other words, he has a 90-day warning, or another is where there are specific examples of record of unsatisfactory conduct or there are other negative factors adversely affecting the total group so that he does not deserve more money. Those are examples.

Mr. OSTERTAG. Do you have a figure as to the total number in the VA that have not received the benefit of the increase?

Mr. UNDERWOOD. No, not for the whole VA. We haven't required those kinds of reports. We have had 12 in central office here as a separate station that have not received it so far.

Mr. OSTERTAG. Then you have no general figure throughout the overall service?

Mr. UNDERWOOD. No. There is a lot of experimentation and we do not know exactly how well it is going to work. We know there are certain problems involved in it.

Mr. OSTERTAG. Who has jurisdiction over such determination?

Mr. UNDERWOOD. Each agency is responsible for administering its own under regulations issued by the Civil Service Commission, but the Commission is going to issue new criteria before they give the other side of this, the incentive, the high quality awards.

They expect a certain small percentage of people to earn those. We are talking about the lower end where they have to meet acceptable level of performance to get their regular within grades. We are not authorized to give any of the high quality yet because they are prescribing more concrete guidelines. That will come sometime this year.

ACCRUED ANNUAL LEAVE

Mr. THOMAS. How much money do you have in here for annual leave carryover? That is no new subject with you, Doctor?

Mr. MONK. Do you mean termination pay?

Mr. THOMAS. No. I am going to get to that next.

Mr. MONK. We do not have any money in here specifically for annual leave.

Mr. THOMAS. What is your rule now on annual leave?

Mr. MONK. The rule is 30 days.

Mr. THOMAS. Use it or lose it?

Mr. MONK. Use it or lose it, yes. You can accumulate up to 30 days and carry over.

Mr. THOMAS. What is that figure?

Mr. DRIVER. That varies with each employee. We do not keep records on that and do not carry any money forward for it.

Mr. THOMAS. What happens when one of your employees transfers to another agency?

Mr. MONK. We do not transfer the money. We transfer the leave.

Mr. DRIVER. He takes his own rights with him as to leave.

Mr. THOMAS. Who pays for that leave that accumulated while he was with you?

Mr. DRIVER. Whoever took him.

Mr. MONK. The agency that receives him.

Mr. DRIVER. He may not work a full year for them. He may work less number of days than somebody else because he has the right to the leave.

Mr. THOMAS. The new agency honors the leave that he built up while he was with you.

Mr. DRIVER. That is right.

Mr. THOMAS. You have a 2-percent monthly turnover. You are receiving a lot of other agencies' former employees. How much do you carry in this budget for that activity?

Mr. DRIVER. None. We just carry the money to pay the average employment.

Mr. THOMAS. "X" comes to you. He has 30 days of leave accumulated.

Mr. GLEASON. If one who worked for us went to another agency it offsets.

Mr. DRIVER. The big problem would be the one with the very low leave.

TERMINAL LEAVE

Mr. MONK. The best answer we can give, Mr. Chairman, is the amount we carry in here for terminal leave.

Mr. THOMAS. Those are separate and distinct things.

Mr. MONK. This is the only time we pay it, when the man leaves.

Mr. THOMAS. How much is in here for terminal leave?

Mr. MONK. $7,924,270 for 1963, $8,078,302 for 1964.

Mr. THOMAS. How do you arrive at the terminal leave figure that is $7.5 million a year?

Mr. MONK. This is on the basis of past experience, basically.

Mr. DRIVER. And projected retirements based on age and length of service which we have documented.

Mr. THOMAS. What is the formula now? What is the terminal leave law now?

Mr. GLEASON. The maximum is generally 30 days.

Mr. MONK. When a man terminates his employment with the Government he gets paid in a lump sum.

Mr. THOMAS. What is the lump sum and what is the formula for arriving at it?

Mr. GLEASON. It depends on what his salary is and how much accrued leave he has left.

Mr. MONK. It will run from 90 days to zero for employees covered by Public Law 102, 83d Congress. The maximum anybody could have would be 90 days and this was during the war when they were permitted to accumulate up to 90.

Mr. THOMAS. What is the present law for a new employee?

Mr. MONK. The present law is 30 days, a maximum of 30 days, and if the individual has more than 30 days at the end of the year it is cut back to 30 days and he starts over.

Mr. THOMAS. Is that $7.5 million a figure you carry every year?

Mr. GLEASON. That varies.

Mr. THOMAS. When did this new law go into effect?

Mr. MONK. About 4 or 5 years ago.

Mr. THOMAS. It was longer than that.

Mr. DRIVER. About 1953.

Mr. GLEASON. It is about that.

Mr. THOMAS. You are still carrying this for 10 years?

Mr. GLEASON. It varies from year to year, though, Mr. Chairman.

Mr. THOMAS. As I understood Dr. Monk, the large part accumulated by virtue of the old law.

Mr. MONK. If I left that impression I am sorry. I did not intend to. There would be a relatively few number of employees that have over the 30 days.

Mr. THOMAS. How many people have you budgeted to retire this year for sickness, retirement, and what not? That is your $8 million.

Mr. MONK. $7,924,270 for all terminal leave.

Mr. THOMAS. Is that for 30 days?

Mr. MONK. That would be the average. Some have more than 30.

Mr. THOMAS. What is the total number you figure on retiring? Nobody can have more than 30 days.

Mr. GLEASON. Yes, sir. Some of them can have more than 30.

Mr. THOMAS. That goes gack to the old law, then.

Mr. GLEASON. Yes.

Mr. UNDERWOOD. I would be glad to supply that information.

Mr. GLEASON. We can get the figures, Mr. Chairman.

Mr. THOMAS. What is your best guess?

Mr. MONK. About 3,000 to 3,500 will retire.

Mr. THOMAS. You will average out close to the maximum of 30 days?

Mr. BAKER. Several years ago we made a study of that. At that time there was an accumulation of 32 days per employee, annual leave. That is several years ago. It may have increased or decreased a little bit since then. I couldn't tell you.

Mr. THOMAS. In the old days we found a lot of the agency heads, supergrades, and career employees ready to retire would have 2 or 3 months.

Mr. GLEASON. How many days do you have?

Mr. MONK. I have 60 days.

Mr. THOMAS. That goes back to the old law.

Mr. MONK. Yes, sir.

EMPLOYEE BENEFITS COSTS

Mr. THOMAS. Tell us about the fringe benefits. That costs more money now by virtue of the pay raise.

Mr. MONK. The fringe benefits for 1963 run about $70 million; for 1964 they run about $74 million. I can give you a breakdown if you would like of the categories. The Federal group life insurance——

Mr. THOMAS. All right. For 1964 it is going to be in round figures about $74 million.

Mr. MONK. Yes, sir; Federal group life insurance is $3 million, roughly; Federal health——

Mr. THOMAS. How does that operate, Federal group life insurance?

Mr. MONK. This is the group insurance where the employee pays part and the Government pays part.

Mr. THOMAS. It is on a 50–50 matching basis?

Mr. GLEASON. I think so.

Mr. THOMAS. It does not miss it far.

Mr. MONK. It is pretty close. Health insurance is roughly $8 million.

Mr. THOMAS. What is the basis for that?

Mr. MONK. That is roughly two-thirds employee, one-third Government.

Mr. THOMAS. That is correct. There are four or five variations in there. It averages out 2 to 1.

Mr. MONK. Yes, sir. Now the big one is the retirement contribution. That is roughly $60 million—$59,713,728—and that is a 50–50 proposition. The employee contributes 6½ percent of his gross pay.

Mr. THOMAS. The employees contribute theirs every payday?

Mr. MONK. Yes, sir.

Mr. THOMAS. The Government has been contributing for some years.

Mr. MONK. Uniform allowances, $1,458,799.

Mr. THOMAS. Who gets uniforms?

Mr. GLEASON. That is generally in medical, Mr. Chairman.

Mr. THOMAS. You have policemen and guards, laboratory technicians, food handlers.

Mr. UNDERWOOD. Social workers.

Mr. THOMAS. Social workers, too?

Mr. UNDERWOOD. Yes, sir.

Mr. THOMAS. What does the uniform allowance cost?

Mr. MONK. $1,458,799.

Mr. THOMAS. That is it, is it not?

Mr. MONK. Social security, FICA, $561,878. We have very few employees, relatively, that are participating in the social security program.

Mr. THOMAS. All of yours are under civil service?

Mr. MONK. Most of ours are under civil service, yes.

Mr. THOMAS. This takes care of some of your part-time workers, then?

Mr. MONK. That are on an hourly rate, yes, sir. Then in 1964 we are going to pay the Bureau of Employment Compensation $683,000 as our share of the accident compensation for VA employees.

Mr. THOMAS. What is your overall cost there for your fringe benefits against your payroll?

Mr. MONK. $74 million out of a total payroll of $1,036,004,011; without the fringe benefits it is $962,630,957, so this would be roughly 7½ percent.

Mr. GLEASON. Mr. Chairman, could we insert in the record 2–8? That has the figures on it.

Mr. THOMAS. Yes, civil service contribution, uniform allowance, et cetera. Put 2–8 in the record.

(The page referred to follows:)

Statement of personnel compensation and employee benefit costs paid from appropriated funds, fiscal years 1962, 1963, and 1964

FISCAL YEAR 1962 ACTUAL

	Personnel compensation	Federal group life insurance	Federal health benefit insurance	Civil service retirement contribution	Awards	Uniform allowance	FICA	Accident compensation	Total personnel compensation and benefits
General administration	$10,666,321	$35,134	$72,600	$671,793	$2,905	$188	$3,338		$11,452,279
DVB	98,543,426	254,183	907,840	6,182,584	130,078	422	39,570		106,058,103
DI	18,388,876	62,598	153,801	1,179,618	27,661	427	675		19,813,656
Total, general operating expenses	127,598,623	351,915	1,134,241	8,033,995	160,644	1,037	43,583		137,324,038
Medical administration and miscellaneous operating expenses	24,782,878	73,134	163,973	1,456,294	15,945	28,094	46,455		26,566,773
Medical care	720,637,714	2,198,151	5,867,662	43,531,093	682,939	1,320,248	373,635		774,611,442
Construction of H. & D. F	2,857,854	6,905	14,655	126,372	1,510		25,004		3,032,300
Total, fiscal year 1962 actual	875,877,069	2,630,105	7,180,531	53,147,754	861,038	1,349,379	488,677		941,534,553

FISCAL YEAR 1963 ESTIMATE

General administration	$11,892,944	$40,588	$81,893	$773,248		$244	$3,136		$12,792,053
DVB	98,734,739	315,224	909,678	6,304,473		400	41,106		106,305,620
DI	17,974,287	61,581	137,086	1,127,219		159	2,764		19,303,096
Total, general operating expenses	128,601,970	417,393	1,128,657	8,204,940		803	47,006		138,400,769
Medical administration and miscellaneous operating expenses	10,177,000	33,000	60,000	639,000			1,000		10,910,000
Medical and prosthetic research	18,253,000	51,000	127,000	1,052,000		30,000	53,000		19,566,000
Medical care	766,536,000	2,391,000	6,382,000	47,343,000		1,380,000	406,000	$141,000	824,579,000
Construction of H. & D.F	3,218,400	7,765	16,480	155,250			27,105		3,425,000
Total, fiscal year 1963 (estimated)	926,786,370	2,900,158	7,714,137	57,394,190		1,410,803	534,111	141,000	996,880,769

FISCAL YEAR 1964 ESTIMATE

General administration	$12,532,154	$42,227	$82,785	$817,513	----------	$240	$3,034	----------	$13,477,953
DVB	101,498,805	325,143	889,808	6,562,703	----------	400	42,300	----------	109,319,159
DI	16,259,598	54,772	120,494	1,030,672	----------	159	204	----------	17,465,899
Total, general operating expense	130,290,557	422,142	1,093,087	8,410,888	----------	799	45,538	----------	140,263,011
Medical administration and miscellaneous operating expenses	11,191,000	37,000	63,000	706,000	----------	----------	1,000	----------	11,998,000
Medical and prosthetic research	20,352,000	57,000	133,000	1,177,000	----------	32,000	63,000	----------	21,814,000
Medical care	797,430,000	2,487,000	6,639,000	49,254,000	----------	1,426,000	423,000	$683,000	858,342,000
Construction of H. & D.F	3,367,400	7,820	16,600	165,840	----------	----------	29,340	----------	3,587,000
Total, fiscal year 1964 (estimated)	962,630,957	3,010,962	7,944,687	59,713,728	----------	1,458,799	561,878	683,000	1,036,004,011

NOTE.—The "Medical research" and "Prosthetic testing and development" portions of the "Medical administration and miscellaneous operating expenses" appropriation combined into one appropriation "Medical and prosthetic research."

Mr. THOMAS. This all averages up about 7½ percent of your total payroll costs. I thought it was a little bit more than that. It is nearer 10 or 10½, is it not?

Mr. GLEASON. No, sir. Ten percent would be $96 million, Mr. Chairman.

Mr. THOMAS. You are right. It is 7½ percent.

GENERAL OPERATING EXPENSES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	126,346	127,078	128,436
	Positions other than permanent	67	63	61
	Other personnel compensation	1,186	1,461	1,794
	Total personnel compensation	127,599	128,602	130,291
12	Personnel benefits	9,725	9,799	9,973
21	Travel and transportation of persons:			
	Employees	2,937	3,178	3,046
	Beneficiaries	240	326	360
22	Transportation of things	331	385	344
23	Rent, communications, and utilities	6,928	5,996	5,880
24	Printing and reproduction	1,679	1,820	1,748
25	Other services	3,716	3,635	3,912
	Services of other agencies	260	615	669
26	Supplies and materials	2,203	1,941	1,936
31	Equipment	3,989	3,831	647
41	Grants, subsidies, and contributions	1,086	1,000	900
42	Insurance claims and indemnities	84	331	85
	Total costs	160,777	161,460	159,790
	Change in selected resources	55		
	Total obligations	160,832	161,460	159,790

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	21,751	20,798	20,213
Full-time equivalent of other positions	17	10	10
Average number of all employees	20,727	19,582	18,812
Number of employees at end of year	20,441	19,018	18,447
Average GS grade	6.4	6.6	6.6
Average GS salary	$6,126	$6,601	$6,692

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. General administration	13,911	16,079	16,571
2. Insurance:			
(a) Program planning and direction	2,528	2,664	2,690
(b) Field operations:			
(1) Executive administration	230	251	282
(2) Insurance operations	15,610	17,302	11,948
(3) Office services	5,090	4,865	5,171
3. Veterans benefits:			
(a) Program planning and direction	9,378	7,875	8,359
(b) Field operations:			
(1) Executive administration	2,750	2,901	3,022
(2) Contact	9,005	8,120	7,544
(3) Compensation and pensions	29,983	30,739	33,109
(4) Vocational rehabilitation and education	10,004	9,085	9,037
(5) Loan guarantee	18,275	20,223	20,634
(6) Guardianship	12,158	12,834	12,899
(7) Office services	31,855	28,522	28,524
Total program costs, funded [1]	160,777	161,460	159,790
Change in selected resources [2]	55		
Total obligations	160,832	161,460	159,790
Financing:			
Unobligated balance transferred from veterans special term insurance fund (75 Stat. 495) (—)	−221	−40	−40
Unobligated balance lapsing	1,135		
New obligational authority	161,746	161,420	159,750
New obligational authority:			
Appropriation	161,773	157,669	159,750
Transferred to "Operating expenses, Public Buildings Service," General Services Administration (75 Stat. 353 and 76 Stat. 728) (—)	−27	−50	
Appropriation (adjusted)	161,746	157,619	159,750
Proposed supplemental due to pay increases		3,608	
Proposed transfer from "Grants to the Republic of the Philippines for care and treatment of veterans" due to pay increases		193	

[1] Includes capital outlay as follows: 1962, $3,989,000; 1963, $4,025,000; 1964, $644,000.
[2] Selected resources as of June 30 are as follows:

	1961	1962 adjustments	1962	1963	1964
Unpaid undelivered orders	227	−14	240	240	240
Advances	8		36	36	36
Total selected resources	235	−14	276	276	276

Mr. THOMAS. Let us take a look at your general operating expenses. There is $159,750,000 for this. Put page 3–1 in the record.

(The page referred to follows:)

GENERAL OPERATING EXPENSES, $159,750,000

This appropriation provides funds for (a) executive direction of the Veterans' Administration and (b) expenses involved in administering the several direct benefit appropriations and the insurance program.

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 Insurance. 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.

The appropriation of $159,750,000 proposed is a net of $1,720,000 less than the amount required for 1963. This includes an increase of $4,330,000 for pay raise and related costs attributable to Public Law 87-793. Excluding these costs, a decrease of $6 million is forecast. This decrease is due principally to (1) reduced rental costs of computer equipment as the result of purchases of this equipment in 1962 and 1963, and (2) employment reductions in most benefit and insurance programs.

Continuing progress is being made in the area of automation and is reflected in this estimate. Specific areas of accomplishment are included in the presentations of the concerned major operating segments.

Mr. THOMAS. Gentlemen, I suggest you read this again. I know you read it last night.

This appropriation provides funds for executive direction of the Veterans' Administration, expenses involved in administering its several direct benefit appropriations and the insurance program. The general operating expense appropriation supports the following three major segments of the agency: General administration, the Department of Veterans' Benefits, and the Department of Insurance. General administration includes the Office of the Administrator and all the supporting staff officers, with the exception of the Office of the Assistant Administrator for construction, which is financed by the medical administration and miscellaneous operating expenses appropriation.

The appropriation of $159,750,000 proposed is a net of $1,720,000 less than the amount required for fiscal year 1963.

You have a few less employees but the overall cost is more.

This includes an increase of $4,330,000 for pay raises and related costs attributable to Public Law 87-793. Excluding these costs, a decrease of $6 million is forecast. This decrease is due principally to reduced rental cost of computer equipment, employment reductions in most benefit and insurance programs.

EMPLOYMENT—GENERAL OPERATING EXPENSES

This is a good page on page 3-2 relating to general administration. Where is this employment in general administration? How is it broken down between the regional and the district?

Mr. DRIVER. That is all Central Office.

Mr. THOMAS. What is the total figure in the Central Office? Is it about 5,000?

Mr. MONK. Roughly, yes, sir.

Mr. UNDERWOOD. That is the Washington area.

Mr. DRIVER. That includes Mount Alto.

Mr. UNDERWOOD. As of December 31 we had about 3,750 in the Central Office; 793 in the Veterans' Benefits Office; and about 902 at Mount Alto.

Mr. THOMAS. Turn to the first chart on page 1-1. You can run this down. You can follow this very easily. General administration, Department of Veterans' Benefits, and so forth.

Mr. Reporter, put 3-2 in the record.

(The page referred to follows:)

GENERAL OPERATING EXPENSES

Comparison of employment and costs by departments

Department	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−) 1964 over 1963
General administration:				
Average employment	1,453	1,510	1,502	−8
Costs:				
Personnel compensation	$10,666,321	$11,892,944	$12,532,154	+$639,210
All other	3,244,329	4,186,056	4,038,846	−147,210
Total costs	13,910,650	16,079,000	16,571,000	+492,000
Public Law 87-793 costs		(618,800)	(1,104,200)	(+485,400)
Department of Veterans Benefits:				
Average employment	15,628	14,842	14,518	−324
Costs:				
Personnel compensation	$98,543,426	$98,734,739	$101,498,805	+$2,764,066
All other	24,864,204	21,564,261	21,629,195	+64,934
Total costs	123,407,630	120,299,000	123,128,000	+2,829,000
Public Law 87-793 costs		(4,472,000)	(7,822,000)	(+3,350,000)
Department of Insurance:				
Average employment	3,439	3,043	2,641	−402
Costs:				
Personnel compensation	$18,388,876	$17,974,287	$16,259,598	−$1,714,689
All other	5,069,297	7,107,713	3,831,402	−3,276,311
Total costs	23,458,173	25,082,000	20,091,000	−4,991,000
Public Law 87-793 costs		(713,000)	(1,208,000)	(+495,000)
Grand total:				
Average employment	20,520	19,395	18,661	−734
Costs:				
Personnel compensation	$127,598,623	$128,601,970	$130,290,557	+$1,688,587
All other	33,177,830	32,858,030	29,499,443	−3,358,587
Total costs	160,776,453	161,460,000	159,790,000	−1,670,000
Public Law 87-793 costs		(5,803,800)	(10,134,200)	(+4,330,400)
Change in selected resources	+54,912			
Total obligations	160,831,365	161,460,000	159,790,000	−1,670,000
Unobligated balance lapsing	+1,135,129			
Transfers:				
To Public Building Service, GSA	+27,018	+50,000		−50,000
From veterans special term insurance fund	−220,512	−40,000	−40,000	
Total appropriation or estimate	161,773,000	[1] 161,470,000	159,750,000	−1,720,000

[1] Includes proposed supplemental request of $3,801,000, covering partial cost of pay increase (Public Law 87-793), of which $193,000 is anticipated as a transfer from the appropriation for "Grants to the Republic of the Philippines," fiscal year 1963.

Mr. THOMAS. Here is the Department of Insurance. It goes down from 3,043, a decrease of 402. Your grand total for general operating expenses is minus 734 from 19,395 for 1963.

SUPPLEMENTAL FUNDS, FISCAL YEAR 1963

How many deficiencies do you contemplate for 1963?

Mr. SHYTLE. We have a pending supplemental for readjustment benefits of $63,575,000; $59 million of that is for transfer to the loan guarantee revolving fund.

Mr. THOMAS. Is that fresh money?

Mr. SHYTLE. It is new money we need to pay this $311 million worth of expenditures in the loan guarantee revolving fund. The additional amount, between 1959 and 1961, is the vocational rehabilitation peacetime bill cost.

Mr. THOMAS. That gives vocational rehabilitation to the Korean verteran?

Mr. SHYTLE. Peacetime veterans.

Mr. THOMAS. How many are involved?

Mr. SHYTLE. A little over 1,200 average trainees, I believe.

Mr. GLEASON. Roughly.

Mr. THOMAS. The total cost this year is around $3 million?

Mr. SHYTLE. In the direct benefit appropriation we also have a $42 million supplemental coming up here for compensation and pensions.

Mr. THOMAS. What does that take care of?

Mr. GLEASON. The compensation increase the Congress voted last year?

Mr. SHYTLE. The $31,874,000 is coming up for the pay raise including wage rate increases, for medical care; we have $221,000 coming up for medical administration and miscellaneous operating expenses and we have a general operating expense net supplemental request of $3,801,000.

Mr. THOMAS. Where did that come from?

Mr. SHYTLE. Our pay raise cost in general operating expense was $5,804,000, and our request to you is $3,801,000 and included in that is a request that you transfer $193,000 from grants, which is excess to that grant to the Philippines.

Mr. THOMAS. How many items do you have, four or five?

Mr. SHYTLE. We have five items coming up.

Mr. THOMAS. What is the fifth one?

Mr. SHYTLE. I had readjustment benefits, compensation and pension, medical care, medical administration, and miscellaneous operating expenses and general operating expenses. The total, Mr. Chairman, is $141,278,000.

Mr. HANSMAN. Out of that $35,703,000 is for pay raise cost including wage rate increases.

ABSORPTION OF PAY INCREASES

Mr. THOMAS. I thought you absorbed $12 million out of that $32 million.

Mr. MONK. We did, but not in cash.

Mr. THOMAS. You did not absorb it if it is not in cash.

Mr. MONK. We would have been back to ask you for $9 million more.

Mr. THOMAS. You did not absorb it then.

Mr. MONK. This depends on how you look for it.

Mr. THOMAS. Those are just words, Doctor. When we talk about absorb, that is where a fellow says "absorb." You are asking for more money.

Mr. MONK. That is true. But if we had not absorbed these costs we would be back here for $150 million instead of $141 million.

Mr. THOMAS. Why don't you put it down there, then, "All we were able to absorb was about $9 million." That is what it adds up to, does it not?

Mr. MONK. We do not look at it that way, sir.

Mr. SHYTLE. This is additional workload which we absorbed. As Mr. Monk said, if we had not absorbed it——

Mr. THOMAS. What is that additional workload? You make that explanation under compensation and pensions anyway.

You write them not one letter but usually three or four. If you do not get enough mail we will send you some of ours. You have been doing that all along. There is nothing new in that. You are asking for a supplemental?

Mr. BROWNSTEIN. We did not ask for a supplemental on the statement of the case, Mr. Chairman.

Mr. THOMAS. I mean you set that up as a new item under "Compensation and pension for 1964." What was the amount?

Mr. BROWNSTEIN. 87 positions.

Mr. THOMAS. What does it cost?

Mr. BROWNSTEIN. About $700,000.

Mr. THOMAS. What else is there in the new law?

Mr. SHYTLE. Statement of the case is one of them, peacetime vocational rehabilitation is $850,000, then the administrative appropriation thatwe are going to absorb.

Mr. THOMAS. What other new legislation did you have? You have vocational, settlement, and what else?

Mr. SHYTLE. That is right. Then the priority of absorption was that we would absorb all of the wage board we possibly could. We had an additional $2,182,000 that we absorbed.

Mr. THOMAS. How much did you set aside?

Mr. SHYTLE. We absorbed $2,182,000 of that.

Mr. THOMAS. They all add up to $141 million?

Mr. SHYTLE. That is right, $141,278,000 to be exact.

GENERAL OPERATING EXPENSES BY OBJECTS OF EXPENSE

Mr. THOMAS. Put page 3–3 in the record, Mr. Reporter.
(The page referred to follows:)

GENERAL OPERATING EXPENSES

Cost summary by object

	Fiscal year, actual	Fiscal year, 1963, estimate	Fiscal year, 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment	20,520	19,395	18,661	−734
Costs by objects:				
11 Personnel compensation	$127,598,623	$128,601,970	$130,290,557	+$1,688,587
12 Personnel benefits	9,725,415	9,798,799	9,972,454	+173,655
21 Travel and transportation of persons:				
Employees	2,937,276	3,177,554	3,046,224	−131,330
All other	240,188	326,000	360,000	+34,000
22 Transportation of things	330,726	384,739	343,963	−40,776
23 Rents communications and utilities	6,928,041	5,996,246	5,880,242	−116,004
24 Printing and reproduction	1,678,934	1,820,300	1,748,100	−72,200
25 Other services	3,975,743	4,250,957	4,580,589	+329,632
26 Supplies and materials	2,202,557	1,940,825	1,936,081	−4,744
31 Equipment	3,988,796	3,831,455	646,790	−3,184,665
41 Grants, subsidies and contingencies	1,086,303	1,000,000	900,000	−100,000
42 Insurance claims and indemnities	83,851	331,155	85,000	−246,155
Total costs	160,776,453	161,460,000	159,790,000	−1,670,000
Change in selected resources	+54,912			
Total obligations	160,831,365	161,460,000	159,790,000	−1,670,000
Unobligated balance lapsing	+1,135,129			
Transfers:				
To Public Buildings Service, GSA	+27,018	+50,000		−50,000
From veterans' special term insurance fund	−220,512	−40,000	−40,000	
Total appropriation or estimate	161,773,000	[1] 161,470,000	159,750,000	−1,720,000

[1] Includes proposed supplemental request of $3,801,000, covering partial cost of pay increase (Public Law 87–793), of which $193,000 is anticipated as a transfer from the appropriation for "Grants to the Republic of the Philippines" fiscal year 1963.

Mr. THOMAS. This is by objects. You list the personnel at $130 million, an increase of $1,688,587. Then comes your benefits. It is about 7½ percent of your salaries.

Now we come to "Other objects." You list travel and transportation of persons, employees, and all other. Employees travel for 1963 was $3,177,554. This shows a decrease of $131,330; 1963 over 1962 reflects your increase in the travel per diem, does it not?

Mr. SHYTLE. Yes, sir.

BENEFICIARY TRAVEL

Mr. THOMAS. You have "All other." It shows a $34,000 increase, up to $360,000 against $326,000. What is all other?

Mr. MONK. The increase in beneficiary travel of $34,000 is basically for the peacetime disabled. They go into counseling under the new bill. We pay their way to the counseling point.

Mr. THOMAS. What is that now?

Mr. MONK. The disabled veterans are counseled when they go into training. We pay their way to the point of counseling.

Mr. THOMAS. This is under "Veterans benefits"?

Mr. GLEASON. Yes, sir; peacetime.

Mr. THOMAS. How do you arrive at this figure?

Mr. MONK. This is based on an estimate.

Mr. THOMAS. How long has this been in the law?

Mr. MONK. It has been in the law since the word "go" as far as paying beneficiary travel but the benefits for peacetime came in last year.

Mr. THOMAS. This increase of $34,000 is the peacetime disabled?

Mr. MONK. Yes, sir.

Mr. THOMAS. What is the nature of the expenditures? How large do they run? You pay them from where to where and at what rate?

Mr. MONK. We pay them at the rate of 5 cents a mile unless they want to claim actual expenses, from their home to the point of counseling and of course it depends on how far away they are.

Mr. THOMAS. Your travel increase did not affect this, did it?

Mr. MONK. No, sir. We did not raise this rate when we raised the other rate. There is a sum here——

Mr. THOMAS. Is this the same rate you use in the medical-care program?

Mr. MONK. Yes, sir; for beneficiary travel.

TRANSPORTATION OF THINGS

Mr. THOMAS. Transportation of things is set forth here. It is $384,700 in 1963 against $343,900 in 1964.

I notice the footnote:

Includes proposed supplemental request for $3.8 million, covering partial cost of the pay increase of which 193 is anticipated as a transfer from the appropriation for grants to the Philippines for fiscal year 1963.

Tell us about this transportation of things. Does that include charges to the GSA or is it all household goods?

Mr. GLEASON. Most of it is household goods, Mr. Chairman.

Mr. THOMAS. This is not the item that has a little increase for about four employees going to Manila?

Mr. MONK. Yes, sir. That would be in here.

Mr. THOMAS. What is your yardstick used in your transportation of things? This gets up into money. It would not be here because it shows a minus. You put it over I think under——

EMPLOYEE TRAVEL

Mr. GLEASON. I issued instructions that anyone using air travel——

Mr. THOMAS. Yes.

Mr. GLEASON. I issued instructions that anyone using air travel——

Mr. THOMAS. No, this is transportation of things, now, not personnel. You have got quite a travel bill for employees, in excess of $3 million.

Mr. GLEASON. That is down $131,000 from the previous year.

Mr. THOMAS. Who does all the traveling?

Mr. DRIVER. Field examiners, examiners in connection with training institutions, supervisors.

Mr. THOMAS. We will look into your individual sections or offices. Each has a tremendous travel bill. Be prepared to go into several of your other objects. We will go into it in some detail.

OTHER OBJECT COSTS

This is your overall table. What is your overall "Other objects"? What does that cost this year?

Mr. MONK. In this appropriation?

Mr. THOMAS. Yes. This is your cover sheet for your big one.

Mr. MONK. Approximately $20 million.

Mr. THOMAS. Against your total appropriation of what?

Mr. MONK. $159,790,000.

Mr. THOMAS. What percentage is that?

Mr. MONK. Thirteen, twelve and a half.

Mr. THOMAS. You have a personnel cost here of about $140 million?

Mr. MONK. $140 million.

Mr. THOMAS. What are your other objects?

Mr. MONK. Roughly $20 million.

Mr. THOMAS. Ten percent of your $140 million is $14 million. You have around 15 percent, have you not?

Mr. MONK. Not quite—12½.

Mr. SHYTLE. You can do it as percentage of payroll.

Mr. THOMAS. That is what it is based on. There is no other yardstick you have.

Some of these items are matter over which you have no control. Name those items.

Mr. MONK. Roughly it is the item 25; there are other services where we pay counseling fees, we pay handling charges to institutions, we pay a reporting allowance to institutions.

Mr. THOMAS. Let us see a good breakdown. Let us see one of your first breakdowns on other services.

Mr. MONK. The best one is on 8–5. That is where most of the money is.

Mr. THOMAS. I was bragging on that budget officer this morning. He sure got tired when he got over to "Other objects." Where is it on this page?

Mr. MONK. The third column, "Other services."

Mr. THOMAS. You control most of these, repair of furniture and equipment, miscellaneous contract service, handling charges, vocational rehabilitation and education, counseling fees, R. & E.; Representation allowance, R. & E.

Mr. DRIVER. Reporting allowance, R. & E.

Mr. THOMAS. Reporting, and here is representation down below.

Mr. DRIVER. That is Manila.

Mr. THOMAS. You have here transportation of things, rents, utilities, supplies, materials. There is a summary sheet on 8–4 and 8–5. In between there is not much definite information. You list equipment, furniture, and fixtures. That is quite a figure. Here is grants to States. You have common services adjustments.

Let us see if we can eke it out as we go along.

REPORTING ALLOWANCES

Mr. JONAS. May I ask a question about the $1,462,190 for miscelleaneous services? Is reporting included in there?

Mr. MONK. No, sir.

Mr. JONAS. What do you pay in institutions for reporting?

Mr. MONK. We pay in total, Mr. Jonas, $575,000 in 1964. We pay them $1 a month.

Mr. JONAS. Per student?

Mr. MONK. Per student. That is a full-time resident student. In a correspondence course we pay $1 a quarter.

Mr. THOMAS. We have carried that limitation, have we not, for 10 years?

Mr. MONK. Yes, sir, a number of years.

Mr. JONAS. Do they report on a postal card for 5 cents and you give them $1?

Mr. MONK. No. They report on a sheet about the size of this, but it is a certification they make as to the fact that the veteran was in training and that his progress was satisfactory.

Mr. JONAS. You give them $9 a year or $1 a month?

Mr. MONK. $1 a month.

Mr. THOMAS. At one time you were paying $2 or $3.

Mr. MONK. $1.50 is the highest that it got, then this committee wrote a limitation in. Of course, when our trainees were much higher it ran into a lot of dollars.

We did not pay in the correspondence school but we lost a case in the Court of Claims that requires us to do that.

GENERAL ADMINISTRATION

Mr. THOMAS. General administration.

Put page 4–1 in the record.

(The page referred to follows:)

GENERAL OPERATING EXPENSES

GENERAL ADMINISTRATION, $16,571,000

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:

Assistant Administrator for Appraisal
Information Service
General Counsel
Board of Veterans Appeals
Assistant Administrator for Personnel
Administrative Services
Controller
Assistant Administrator for Management Services

Personal service cost

Employment and personal service costs for these staff offices are individually set forth and justified in the following presentation.

Costs other than personal services

All costs other than personal services are charged directly to each consuming staff office whenever practicable. In some instances, however, it is more practicable to charge either Administrative Services or Management Services with certain costs consumed by all staff offices and the three operating departments in Washington, D.C. Such costs are transportation, communication services, penalty mail, rentals, printing and reproduction, and certain miscellaneous con-

tractual services. Any comparison of the relationship of "Costs Other Than Personal Services" to "Total Costs," between General Administration and the three operating departments should take into consideration the above costing practice.

Mr. THOMAS (reading):

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: Assistant Administrator for Appraisal, Information Service, General Counsel, Board of Veterans Appeals, Assistant Administrator for Personnel, Administrative Services, Comptroller, Assistant Administrator for Management Services.

Again, we will turn back to the chart 1–2. You will see that broken down here with grade and numbers, which I repeat is a very excellent chart.

This is a good paragraph. It deals with costs other than personal services.

All costs other than personal services are charged directly to each consuming staff office whenever practicable. In some instances, however, it is more practicable to charge either administrative services or management services with certain costs consumed by all staff offices and the three operating departments in Washington, D.C. Such costs are transportation, communication services, penalty mail, rentals, printing and reproduction, and certain miscellaneous contractual services. Any comparison of the relationship of "Costs other than personal services" to total costs between the general administration and the three operating departments should take into consideration the above costing practices.

In other words, you charge that in one spot rather than split it up in three or four spots. Is that what you mean by that language?

Mr. MONK. Yes, sir.

GENERAL ADMINISTRATION COSTS BY OBJECT

Mr. THOMAS. Here is a breakdown that is a good one. Let us put this table on page 4–2 in the record.

(The page referred to follows:)

General operating expenses

DISTRIBUTION OF ACTUAL APPLIED COSTS BY PROGRAM AND OBJECT, FISCAL YEAR 1962

Staff offices	Average employment	10 Personnel services and benefits			20 Contractual services and supplies							42		31	
		11 Personnel compensation	12 Personnel benefits	10 Total personal services and benefits	21 Travel and transportation of persons	22 Transportation of things	23 Rents, communications, and utilities	24 Printing and reproduction	25 Other services	26 Supplies and materials	Total 20	Insurance claims and indemnities	Total operating costs	Equipment	Total budgeted costs
Office of the Administrator	54	569,903	39,902	609,805	18,781				13,263	2,574	34,618		644,423	5,773	650,196
Assistant Administrator for Appraisal	93	856,707	65,140	921,847	138,476	8,350			8,778	849	156,453		1,078,300	1,830	1,080,130
Information Service	39	326,319	24,138	350,457	18,753	1,952			47,773	3,566	72,044		422,501	2,678	425,179
General Counsel	99	899,173	65,797	964,970	6,329				228	7,725	14,282	83,851	1,063,103	4,258	1,067,361
Board of Veterans' Appeals	305	2,573,613	182,732	2,756,345	13,444	8,075	450		5,151	9,051	36,171		2,792,516	42,627	2,835,143
Assistant Administrator for Personnel	99	812,938	60,929	873,867	28,479	2,090			6,204	9,403	46,176		920,043	9,442	929,485
Administrative Services	584	3,005,290	227,012	3,232,302	5,409	32,034	364,156	331,561	159,110	157,043	1,049,313		4,281,615	69,175	4,350,790
Controller	74	674,160	49,693	723,853	7,309				21,530	3,167	32,006		755,859	3,587	759,446
Assistant Administrator for Management Services	106	948,218	70,615	1,018,833	35,229	4,481	741,217		3,816	3,691	788,434		1,807,267	5,653	1,812,920
Total, general administration	1,453	10,666,321	785,958	11,452,279	272,209	56,982	1,105,823	331,561	265,853	197,069	2,229,497	83,851	13,765,627	145,023	13,910,650

DISTRIBUTION OF ESTIMATED APPLIED COSTS BY PROGRAM AND OBJECT, FISCAL YEAR 1963

Office of the Administrator	59	664,900	48,700	713,600	31,700	500			22,500	3,700	58,400		772,000	6,000	778,000
Assistant Administrator for Appraisal	93	913,859	68,030	981,889	153,724	11,188			8,490	995	174,397		1,156,286	4,714	1,161,000
Information Service	43	390,119	28,981	419,100	21,300	1,500			57,100	3,800	83,700		502,800	4,200	507,000
General Counsel	104	1,011,050	73,884	1,084,934	9,350	861			700	11,000	21,911	331,155	1,438,000	10,000	1,448,000
Board of Veterans' Appeals	343	2,974,200	219,100	3,193,300	12,100	7,000			9,000	3,800	31,900		3,225,200	6,800	3,232,000
Assistant Administrator for Personnel	100	899,964	67,301	967,265	29,600	1,869			8,000	3,266	42,735		1,010,000	4,000	1,014,000
Administrative Services	573	3,131,900	248,500	3,380,400	9,200	39,300	391,600	418,300	224,000	151,000	1,233,400		4,613,800	35,200	4,649,000
Controller	75	736,800	54,600	791,400	14,900	1,600			163,400	1,900	181,800		973,200	2,800	976,000
Assistant Administrator for Management Services	120	1,170,152	90,013	1,260,165	65,689	6,821	963,515		10,024	3,338	1,049,378		2,309,543	4,457	2,314,000
Total, general administration	1,510	11,892,944	899,109	12,792,053	347,554	70,639	1,355,115	418,300	503,214	182,799	2,877,621	331,155	16,000,829	78,171	16,079,000

General operating expenses—Continued

DISTRIBUTION OF ESTIMATED APPLIED COSTS BY PROGRAM AND OBJECT, FISCAL YEAR 1964

Staff offices	Average employment	10 Personnel services and benefits			20 Contractual services and supplies							42		31	
		11 Personnel compensation	12 Personnel benefits	10 Total personal services and benefits	21 Travel and transportation of persons	22 Transportation of things	23 Rents, communications, and utilities	24 Printing and reproduction	25 Other services	26 Supplies and materials	Total 20	Insurance claims and indemnities	Total operating costs	Equipment	Total budgeted costs
Office of the Administrator	59	709,200	51,500	760,700	31,700	500			22,400	3,700	58,300		819,000	5,000	824,000
Assistant Administrator for Appraisal	93	965,958	72,345	1,038,303	153,674	9,463			8,490	845	172,472		1,210,775	3,225	1,214,000
Information Service	43	418,444	30,956	449,400	21,300	1,500			55,000	3,800	81,600		531,000	1,000	532,000
General Counsel	104	1,049,126	82,824	1,131,950	9,350				700	11,000	21,050	85,000	1,238,000	10,000	1,248,000
Board of Veterans' Appeals	343	3,164,300	232,400	3,396,700	13,300	6,000			13,400	6,700	39,400		3,436,100	9,900	3,446,000
Assistant Administrator for Personnel	100	946,326	70,974	1,017,300	31,000	2,100			9,000	4,600	46,700		1,064,000	4,000	1,068,000
Administrative Services	565	3,217,500	252,800	3,470,300	11,100	39,000	415,700	418,100	150,800	150,000	1,184,700		4,655,000	35,000	4,690,000
Controller	75	804,700	58,100	862,800	16,400	1,600			178,600	1,800	198,400		1,061,200	2,800	1,064,000
Assistant Administrator for Management Services	120	1,256,600	93,900	1,350,500	68,200	3,900	1,036,100		19,800	3,500	1,131,500		2,482,000	3,000	2,485,000
Total, general administration	1,502	12,532,154	945,799	13,477,953	356,024	64,063	1,451,800	418,100	458,190	185,945	2,934,122	85,000	16,497,075	73,925	16,571,000

Mr. THOMAS. This is a distribution of applied costs by programs and objects.

You have the Office of the Administrator for 1962, 54 average employment, 1963, 59, and then 1964, 59. Information Service, 1962 is 39; 1963 is 43; 1964 is also 43. General Counsel is 99 for 1962, 104 for 1963 and 1964.

Board of Veterans Appeals, 305 for 1962; 343 for 1963; and 343 for 1964.

MANAGEMENT SERVICES

You have Management Services here, 106 for 1962; 120 for 1963; and 120 for 1964.

Put your finger on the breakdown for Management Services. Which page is that?

Mr. GLEASON. It is page 5–38.

Mr. THOMAS. It starts on 5–37. Look at 5–38.

(Reading):

The Assistant Administrator for Management Services advises and assists the Administrator in Management Services policy matters agencywide. These services include agency manpower utilization, purchasing and supply, data processing systems, telecommunications, paperwork management, work analysis and improvement, mechanization of operations, civil defense and disaster relief. It develops agencywide policies, objectives and guidelines in the above areas designed to improve the agency's performance in discharging its responsibilities with a maximum of economy.

These people are broken down into the Office of Assistant Administrator, 9; Supply Management Services, 36; Systems Engineering Service, 29; and Manpower Utilization Service, 9; a total of 120 average employment.

In the old days you used to call this your brain trust staff, did you not?

Mr. MONK. This office?

Mr. THOMAS. Yes.

They are property custodians, are they not?

Mr. GLEASON. Part of this will be absorbed into our new department which was just reorganized, Mr. Chairman.

Mr. THOMAS. What part?

Mr. GLEASON. Principally Systems Engineering Service.

Mr. THOMAS. What do the management analysts do?

It says:

Formulates and recommends general policies and plans of VA-wide application for management of paperwork from creation to final disposition, work analysis and improvement and mechanization of operations.

Mr. JONAS. They must not be using Dr. Grover.

Mr. THOMAS. We are referring to our distinguished friend at General Services Administration.

Mr. JONAS. Hasn't he told you how to do away with half of your paperwork?

Mr. MONK. We have worked with him.

Mr. THOMAS. Where are the green sheets on this organization now? The best I can find out is on table 1–2. Where is it on this chart?

Mr. MONK. It would be on 1–1. On the lower left.

Mr. THOMAS. Here it is, gentlemen. Assistant Administrator GS–16. Director of Services GS–16. You have two 15's and three more are 5. There is one GS–15 vacancy. Then you have GS–10 to 14, 78. Are there not some savings that could be made there, gentlemen? What about that, Dr. Monk? Aren't you a little topheavy there?

Mr. MONK. I don't think so.

Mr. THOMAS. Didn't it start out with a brain trust unit 10 or 12 years ago?

Mr. DRIVER. No, sir; not this organization.

Mr. MONK. Up until last year this organization and the Administrative Services were under one head. We split off; the Administra-

tive Services is our housekeeping activity. This is our staff support for work measurement, mechanization, supply activity——

Mr. THOMAS. You have the "merchant prince" over there on supply——

Mr. MONK. He is in this Office. His part of this is 36.

Mr. THOMAS. He is all over the place; is that it? We have been trying to get him in one place for 10 years and finally we thought we did but it looks like he is not there yet.

Mr. MONK. He has 36 people in this office.

BOARD OF VETERANS' APPEALS

Mr. THOMAS. What about your workload on veterans appeals?

This budget is a work of art and we want to commend you for it, but next year when you do this, don't change the composition. You just put over here "General Counsel, see page 15." You see we only have 10 fingers and we need 16 fingers to locate all the pages. Will you do that for me?

Mr. SHYTLE. Yes, sir.

Mr. THOMAS. Where is the Judge of the Veterans' Appeals Board?

Mr. STANCIL. Right here, sir.

Mr. THOMAS. What page are you on?

Mr. STANCIL. 5–19.

Mr. THOMAS. Put page 5–19 in the record.

(Page 5–19 follows:)

GENERAL ADMINISTRATION

Board of Veterans' Appeals, $3,446,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	305	343	343	
Personnel compensation	$2,573,613	$2,974,200	$3,164,300	+$190,100
Personnel benefits	182,732	219,100	232,400	+13,300
Subtotal	2,756,345	3,193,300	3,396,700	+203,400
Public Law 87–793 pay increase		(177,000)	(330,800)	(+153,800)
Travel and transportation of persons	13,444	12,100	13,300	+1,200
Transportation of things	8,075	7,000	6,000	−1,000
Rents, communications, and utilities	450			
Other services	5,151	9,000	13,400	+4,400
Supplies and materials	9,051	3,800	6,700	+2,900
Equipment	42,627	6,800	9,900	+3,100
Total cost	2,835,143	3,232,000	3,446,000	+214,000
Public Law 87–793 costs		(177,000)	(330,800)	(+153,800)

Mr. THOMAS. What do your other objects cost here? You have a total personnel cost in round figures of $3.4 million. What do your other objects cost you here?

Mr. MONK. $49,000.

Mr. THOMAS. You have an increase of $1,200 for travel; supplies and materials increases $2,900; equipment is up $3,100. How do you justify that, Judge?

Mr. STANCIL. Which one, sir?

Mr. THOMAS. All of them.

Put pages 5–20 and 5–21 in the record.

(The pages referred to follow:)

BOARD OF VETERANS' APPEALS

The Board of Veterans' Appeals is a statutory Board created in 1933. Its authority is now defined in title 38, United States Code, 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 1964 at 37,000 cases, which has been the fairly stable rate of receipt in recent years. 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 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Office of Chairman	8	6	6
Appellate Service I	76	93	93
Appellate Service II	79	87	87
Administrative Service	142	157	157
Total	305	343	343

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.

Average employment in fiscal year 1963 and 1964 is expected to increase 38 over fiscal year 1962. These overall changes in average employment are necessary to:

Absorb increased workload inherent in Public Law 87-97 (38 U.S.C. 4004(d)) which requires the Board to separately set forth findings of fact and conclusions of law in its decisions.

Bring manpower expenditures and workload into reasonable balance.

Continue the maintenance of high-quality decisions that are comprehensive and complete and reflect expert medical and legal appraisal of the facts in the individual case.

Average employment for fiscal year 1962 was considerably below workload demands. It was necessary to supplement the regular work force with extensive overtime to maintain the level of pending appeals within reasonable balance.

Summary of workload

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Case receipts	36,153	[1] 34,000	37,000
Board's docket end of fiscal year	9,104	5,000	5,000

[1] Case receipts reduced by reason of Public Law 87-666, effective Jan. 1, 1963. This law 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 in field offices will create a 1-time lag in appeals received in Washington, thus reducing receipts for fiscal year 1963. However, it is anticipated that decisions will be promulgated in an estimated 38,000 cases during fiscal year 1963 with a consequent reduction in the Board's docket, which is presently excessive.

The workload estimates are developed by applying experience factors to trends in workloads from which appeals are received. Projections for fiscal year 1964 are slightly higher than actual receipts for fiscal year 1962, but within the variance range experienced in the past several years.

Mr. THOMAS. You have the same personnel load in 1964 and it breaks down between appellate service I and II and administrative services, 142, 157, and 157.

What do you mean by your "administrative services," Judge?

Mr. STANCIL. That is a group of divisions that keeps the professional people in business. The typing pool, the mail and records, the hearings section, the correspondence clerks, and things of that sort.

Mr. THOMAS. Do you mean it takes 46 percent of your people to keep the other 54 percent going?

Mr. STANCIL. They are divided about half and half. There are some professional people in the administrative services, but largely we are 50 percent lawyers and doctors and 50 percent clerical personnel.

WORKLOAD—BOARD OF VETERANS' APPEALS

Mr. THOMAS. Look at the workload on 5–21. The case receipts are 36,153 for 1962.

In 1963 you have 34,000, and it is estimated for 1964, 37,000.

You indicate here, "Case receipts reduced by reason of Public Law 87–666 effective January 1, 1963." At the time this was written there was a little guesswork involved.

This law modifies appellate procedures at the original jurisdictional level by requiring that the field offices furnish each appellant with a "statement of case" and allow a period of up to 60 days for appellants to answer.

Do you think that is going to cut down your appeals?

Mr. STANCIL. No, sir. What you are reading here refers to a one-time lag. This law introduces some new requirements in the field that will stretch out the processing time in the field and give me a one-time lag during the current 6 months that we are working.

As to the final effect of this law, it may reduce the number of appeals some. We won't know until we gain some experience.

If it does it would be by reason of the fact that the appellant upon receiving the complete statement of the case would decide not to proceed. I don't expect the reduction to be very material.

Mr. THOMAS. I think that is a good, fair statement, Judge.

EFFECT OF "STATEMENT OF CASE" REQUIREMENT

Mr. JONAS. Do you not anticipate that it will cause considerable reversals, giving the appellant an opportunity to answer the specific reason for his turndown?

Mr. STANCIL. I think unquestionably the appellant will be in a much better position. He can stipulate which facts he is in agreement with, he can pinpoint the facts that he thinks are wrong, and he can address his arguments to the specific issues in a much sharper way.

I think the cases that do reach us will be, on the average, more controversial and perhaps a little more difficult to deal with.

Mr. JONAS. Have you had any yet?

Mr. STANCIL. No, sir. This applies only to appeals received on and after January 1 in the field, and there hasn't been time for any of those to reach us yet.

COMPOSITION OF BOARD OF VETERANS' APPEALS

Mr. THOMAS. How many judges do you have?

Mr. STANCIL. Forty-three associate members.

Mr. THOMAS. How many people does it take to decide a case?

Mr. STANCIL. We have 43 associate members, Mr. Chairman, legal and medical. There are 30 legal associate members and 13 medical associate members.

OPERATION OF APPEALS BOARD

Mr. JONAS. How long does it take you to handle an appeal? To dispose of it?

Mr. STANCIL. This varies with the size of the backlog that we have here in Washington. Right now it is running 50-some-odd days in Washington and about an equal period in the field before the case ever reaches us. When we reduce our workload as I think we will do during the one-time lag that we will have during the first 6 months of this calendar year, I expect the processing time to be in the neighborhood of 35 days in Washington.

Mr. JONAS. How many cases are reviewed by you and the Board?

Mr. STANCIL. The cases are assigned to a section of the Board and they do not all come before me. I see the ones that become controversial for some reason or other and if something particularly brings it to my attention but it runs——

Mr. THOMAS. How many people sit on a section?

Mr. STANCIL. There are three members on a section. The usual composition is two legal members, one medical member, except for those appeals that deal with strictly legal issues. Then it would be all three legal members.

Mr. THOMAS. Is that binding on the Administrator, the three?

Mr. STANCIL. Yes. In the law it provides that if the three are unanimous then this is the final decision with the legal effect of finality.

If there is a split decision then by law it can be disposed of by concurrence of the chairman—that is when I get a vote—with the majority, or the usual practice is to enlarge the panel considering the individual case by adding one or more additional sections. Then I would approve the majority vote.

Mr. EVINS. But they can appeal from that decision.

Mr. STANCIL. From the Board's decision?

Mr. EVINS. Yes.

Mr. STANCIL. No; by law the Board of Veterans Appeals decision is final except in the insurance contracts, which applies to 1 percent of our cases.

Mr. EVINS. The law says the decision of the Administrator shall be final.

Mr. STANCIL. And then it goes on to say such decisions shall be made by the Board of Veterans Appeals.

Mr. DRIVER. The Administrator could ask for another decision.

Mr. JONAS. There is no appeal from the Board to the Administrator? He cannot overrule the Board?

Mr. STANCIL. The Board acts for the Administrator.

Mr. THOMAS. He is the Board.

Mr. STANCIL. If we are making decisions out of harmony with the Administrator's concepts, then I don't assert that the Board is an independent group that can proceed on its own contrary to the Administrator's dictates.

Mr. THOMAS. Give Mr. Jonas a direct answer if you can. Put it directly.

Mr. JONAS. Could the veteran appeal from the decision of the Board in a case that the Administrator has never seen, to the Administrator himself?

Mr. STANCIL. There is nothing to keep him from directing a communication or appeal, as you put it, in a general sense to the Administrator. The law doesn't provide this as a regular adjudicatory step.

Mr. DRIVER. In the informal sense, if the case is brought to the Administrator, he would look at it and write the person and say he has read it and finds no reason to disagree with the Board. Or if he

found a run of cases indicating some policy that he felt differently about, he would then talk to the Chairman of the Board and in that way influence the Board's attitude toward other cases. But to answer your question directly, in a formal sense, in the sense the Board operates, the Board's decision is final and that is as far as it goes.

Mr. GLEASON. Sometimes they can ask for independent medical review, Mr. Jonas.

Mr. STANCIL. This independent medical opinion is another new provision of the law that went into effect January 1 and it is designed to provide in certain complex and controversial cases access to independent medical opinion outside of the Veterans' Administration, to provide expert evidence for the Board. It isn't a routine adjudicative step.

Mr. DRIVER. And it is furnishing evidence.

Mr. STANCIL. It is furnishing evidence for the Board's consideration.

Mr. THOMAS. But in the final analysis, the adjudication is the opinion of the Administrator. Doesn't the law say that?

Mr. DRIVER. The Board's action is, yes, sir.

Mr. THOMAS. Gentlemen, we will now adjourn and meet in the morning at 10.

TUESDAY, FEBRUARY 5, 1963.

Mr. THOMAS. Gentlemen, let the committee please come to order.

When we adjourned yesterday we were taking a look at the general operating expense. May I ask the committee to turn to page 4–1 where the various activities are listed. Yesterday we took up the Board of Veterans' Appeals and the management services functions.

OFFICE OF THE ADMINISTRATOR

Let's look at the Office of the Administrator. We will include the table at page 5–1 in the record. This shows $824,000 for 1964, an increase of $46,000 over 1963. Average employment for 1962 is 54 and it is 59 in both 1963 and 1964.

This in the Administrator's immediate office. Follow the table on 5–1 with pages 5–2, 5–3, 5–4, and 5–5.

(The material referred to follows:)

GENERAL ADMINISTRATION

Office of the Administrator, $824,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	54	59	59	
Personnel compensation	$569,903	$664,900	$709,200	+$44,300
Personnel benefits	39,902	48,700	51,500	+2,800
Subtotal	609,805	713,600	760,700	+47,100
Public Law 87-793 pay increase		(34,600)	(59,200)	(+24,600)
Travel and transportation of persons	18,781	31,700	31,700	
Transportation of things		500	500	
Other services	13,263	22,500	22,400	−100
Supplies and materials	2,574	3,700	3,700	
Equipment	5,773	6,000	5,000	−1,000
Total cost	650,196	778,000	824,000	+46,000
Public Law 87-793 costs		(34,600)	(59,200)	(+24,600)

Distribution of average employment

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Administrator, Deputy Administrator, Associate Deputy Administrator, and staffs	25	30	30
Assistant Deputy Administrator and staff	9	8	8
Administrator's Advisory Council	12	15	15
Contract Appeals Board	8	6	6
Total	54	59	59

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 Services, Appraisal, 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 directs the activities of the operations evaluation staff in the Office of the Administrator. He makes independent recommendations to the Administrator regarding areas which should receive priority in substantive research, recommends approval, disapproval or revision of plans submitted by the department heads and staff offices, and recommends action to be taken to solve individual operating problems. He is the Administrator's top planning officer and director of substantive research.

The Executive Assistant presents to the Administrator matters requiring his personal attention. As directed by the Administrator, he monitors special projects and assignments and insures that required action is controlled and coordinated. He discharges for the Administrator all matters of an administrative nature within the Administrator's office.

The operations evaluation staff, under a director responsible to the Assistant Deputy Administrator, acts as the point of contact for operating matters coming to the Office of the Administrator. This staff is responsible for making inquiries into operating matters of interest; evaluating proposals for changes in operating policies and recommending to the Administrator, Deputy Administrator, and Associate Deputy Administrator approval, disapproval, further study or other appropriate action; coordinating proposals with departments and staff offices to assure their presentation for decision in the form desired; and following up to assure that decisions are implemented.

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 effectiveness of established programs. 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.

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Personal services and benefits:				
Personnel compensation	$569,903	$664,900	$709,200	+$44,300
Personnel benefits	39,902	48,700	51,500	+2,800
Total	609,805	713,600	760,700	+47,100
These funds are required to provide the necessary personal services to assure adequate staff support to the immediate office of the Administrator. The Administrator's immediate staff provides him a last line of review and in addition deals with problems which do not properly belong in any other 1 organizational element. The increase in cost is primarily attributable to the increased rates provided by Public Law 87-793.				
Travel and transportation of persons:				
Local travel	236	300	300	----------
Employee travel	18,545	31,400	31,400	----------
Total	18,781	31,700	31,700	----------
These funds will provide for trips the Administrator, Deputy Administrator, Associate and Assistant Deputy Administrators, members of their staffs, chairmen and members of the advisory council and Contract Appeals Board must make to carry out their assigned responsibilities.				
Transportation of things: Shipment of household goods	----------	500	500	----------
These funds will provide for the shipment of household goods and personal effects of employees who transfer to this office.				
Other services:				
Miscellaneous contractual services	1,500	5,300	5,100	−200
Contracts with lecturers	9,763	6,900	6,800	−100
President's Council on Aging	2,000	10,300	10,500	+200
Total	13,263	22,500	22,400	−100
These funds will provide for contractual services including VA's proportionate share of the budget for the President's Council on Aging, consultants and court reporters fees, conferences, surveys, repairs to furniture and equipment, laundry service for the staff dining room, and other miscellaneous services incident to Agency management.				
Supplies and materials	2,574	3,700	3,700	----------
These funds will provide for miscellaneous office supplies and other materials for the entire staff of the Administrator's office and necessary supplies for the Administrator's staff meetings and briefings.				
Equipment	5,773	6,000	5,000	−1,000
These funds will provide for replacement and any necessary initial purchase of furniture and equipment.				

Mr. THOMAS. It breaks down some of the other objects here, travel and transportation of persons and other services.

These funds will provide for contractual services including VA's proportionate share of the budget for the present Council on the Aging. Consultants and court reporters fees, conferences, surveys, repair to furniture and equipment, laundry service for the staff dining room, and other miscellaneous services incident to agency management.

This is other services. This more or less covers the waterfront.

PRESIDENT'S COUNCIL ON THE AGING

Who is contributing to the President's Council on the Aging?

Mr. GLEASON. Mr. Chairman, the Administrator of Veterans' Affairs, the Secretary of Health, Education, and Welfare, the Secretary of Labor, the Secretary of the Treasury. Those are the only ones that I can recall offhand.

Mr. THOMAS. We think it is a grand thing, but why can't the VA's part of the overall contribution come out of your research money? Why do you have to set it up here? Can it not come out of your research money?

Mr. GLEASON. I don't think it should properly come out of that, Mr. Chairman, in view of the fact that this is entirely medical.

Mr. THOMAS. This is dealing with a medical problem, though.

Mr. GLEASON. Along with social——

Mr. DRIVER. It is housing and pensions.

ASSISTANT ADMINISTRATOR FOR APPRAISAL

Mr. THOMAS. Assistant Administrator for Appraisal. We will include 5–6 and the workload on 5–7 in the record.

(The pages referred to follow:)

GENERAL ADMINISTRATION

Assistant Administrator for Appraisal, $1,214,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	93	93	93	
Personnal compensation	$856,707	$913,859	$965,958	+$52,099
Personnel benefits	65,140	68,030	72,345	+4,315
Subtotal	921,847	981,889	1,038,303	+56,414
Public Law 87–793 pay increase		(47,500)	(77,500)	(+30,000)
Travel and transportation of persons	138,476	153,724	153,674	−50
Transportation of things	8,350	11,188	9,463	−1,725
Other services	8,778	8,490	8,490	
Supplies and materials	849	995	845	−150
Equipment	1,830	4,714	3,225	−1,489
Total cost	1,080,130	1,161,000	1,214,000	+53,000
Public Law 87–793 costs		(47,500)	(77,500)	(+30,000)

The Assistant Administrator for Appraisal advises the Administrator on the effectiveness and integrity of all VA programs and operations. Directs agency-wide management surveys, security, and investigation activities. As Employment Policy Officer for VA represents and acts for the Administrator in promoting and insuring equal employment opportunities for all qualified per-

sons, without regard to race, creed, color, or national origin, employed or seeking employment with VA, and on Government contracts.

Summary of major workloads

Field representatives	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Station visits	244	245	245
Preliminary inquiries	93	90	90
Investigation service:			
Full investigations	67	80	80
Preliminary inquiries	74	85	85
Internal audit service:			
Field station audits	7	10	10
State soldiers homes audits	3	1	1
Central office audits		1	1
Special studies	6	5	5
Security service: Cases closed	816	800	800

Mr. THOMAS. The average employment is 93 in 1962, 93 in 1963, and 93 in 1964.

Travel and transportation of persons is $138,476 for 1962, $153,724 for 1963 and $153,674 for fiscal year 1964.

Transportation of things. Why so much travel money? On 5–7 I have a note here, "See green sheets." Where are they?

The Assistant Administrator for Appraisal advises the Administrator of the effectiveness and integrity of all VA programs in operations.

This is one of the most valued sources of information that the Administrator has, is it not?

Mr. GLEASON. That is correct.

Mr. THOMAS. Do they spend most of their time on the road?

Mr. GLEASON. A great percentage of the time, Mr. Chairman.

Mr. THOMAS. As employment policy officer for the VA, he represents the Administrator in insuring equal employment opportunities for all qualified persons without regard to race, creed, or color.

Where are your green sheets on this?

Look at the table, gentlemen. It says, "Stations visited," around 245.

Preliminary inquiries, 93. I don't know what you mean by that.

Veterans services, full investigations; 80, 80.

Preliminary inquiries, 85, 85.

And the internal audits, field station audits, 10, 10.

Security service, cases closed, 800, 800.

POSITIONS AND GRADE—ASSISTANT ADMINISTRATOR FOR APPRAISAL

You have a pretty good staff here and no doubt you need it. You show 93 people. Let's see the green sheets on these.

Mr. MONK. We will have to look at 1–1.

Mr. THOMAS. That is a little cumbersome. It is just one spot in your whole budget.

You have one GS–16, three GS–15's, one 14, and 57 GS–11's to 14. GS–3 to 9, there are 29, and this makes up your 91.

Your table over here on 5–6 calls for 93.

Mr. SHYTLE. This is average employment here, sir.

Mr. THOMAS. Your box still doesn't give us too much information.

How do you grade your investigators? Do they have the same classification that the Civil Service investigators have? They have

a staff over here of about 1,500 and what was the figure, about six or seven hundred investigators and the remaining in clerical work—does anybody remember the breakdown?

Mr. MONK. There are around 600 Civil Service Commission investigators.

Mr. THOMAS. How do the classifications stack up, are they on a comparable basis?

Mr. TURNER. We have grades 11 through 13, Mr. Chairman.

Mr. THOMAS. Your investigators?

Mr. TURNER. Yes, sir.

Mr. THOMAS. And how many of them do you have?

Mr. TURNER. We have 16.

Mr. THOMAS. Out of your 93?

Mr. TURNER. That is right.

Mr. THOMAS. And a remainder of what?

AUDITORS AND INVESTIGATORS

Mr. TURNER. We have three services, sir, the Investigation Service, the Internal Audit Service and the Security Service.

Mr. THOMAS. Do you classify an auditor separate and distinct from an investigator?

Mr. MONK. Yes, sir, there is a different classification standard.

Mr. THOMAS. I can remember in the old days the Department of Justice's investigators investigated and in addition they were good auditors. Which one carries the highest classification?

Mr. TURNER. The internal audit people which we call management specialists range in grade from 11 through 14. We have a few 14's.

Mr. THOMAS. That is your auditing staff?

Mr. TURNER. That is right.

Mr. THOMAS. How many of those do you have?

Mr. TURNER. We have 34 so-called internal auditors.

Mr. THOMAS. Now, your straight-out investigators, do they have a higher classification than the auditor?

Mr. TURNER. No; they are about the same, Mr. Chairman.

WORKLOAD—ASSISTANT ADMINISTRATOR FOR APPRAISAL

Mr. THOMAS. Now, what does that table on 5–7 mean? These bare unexplained figures don't mean much to us. Now, what do they mean?

Mr. TURNER. This is a reflection of the work accomplished in the year indicated.

Mr. THOMAS. Put a little life into these figures. That is what I am trying to get to. What do they mean?

Mr. TURNER. Which ones would you like?

Mr. GLEASON. Start with any of them.

Mr. THOMAS. What do you mean by station visits? What do you mean by preliminary inquiries? "Full investigations," you have 80 this year and 80 next year. How do you know you are going to have 80 next year?

"Preliminary inquiries," 85 this year and half of the fiscal year hasn't come. You give the same figure for next year. Then you have internal audits, field station audits. You have 10 this year and 10 next year.

Soldiers home audits. You are over there looking after the old general.

Central office audits, one and one.

Special studies, five and five.

What does that mean?

Security cases closed, 800, 800.

Breath a little life into these figures.

Mr. TURNER. On station visits we have five field representatives, Mr. Chairman at Atlanta, Boston, Chicago, Dallas, and San Francisco.

Mr. THOMAS. Repeat that again.

Mr. TURNER. They are called field representatives, sir.

Mr. THOMAS. And they are stationed——

Mr. TURNER. In Altanta, Boston, Chicago, Dallas, and San Francisco.

Mr. THOMAS. Where are your 93 people? What part of them are in the District of Columbia and what part of them are elsewhere?

Mr. TURNER. We have all but 10 on duty here in Washington. The five field representatives and their five secretaries are stationed out in the field and they are assigned field stations within given territories which they visit on a routine basis periodically.

They frequently will make a preliminary inquiry—and I would like to define that—at the request of the station manager or a department head. A preliminary inquiry is an investigation to determine whether allegations which we have received are serious enough to warrant a full investigation using people from the central office.

INVESTIGATION OF COMPLAINTS

Mr. THOMAS. How do your investigation audits or otherwise originate now?

Mr. TURNER. Well, they can originate from many sources, sir. From complaints from the public or from Congressmen or reports from inside VA or from veterans who are complaining about services or lack of services, involving any alleged irregularity concerning people in the agency or any of the programs. As they come to us the allegations are referred to the 10th floor and the investigation is approved by the Administrator or his deputy, which we then make.

Mr. THOMAS. What type of inquiry do you get? Do you pay any attention to them?

Mr. TURNER. The nature of the investigations we make are somewhat major. In other words, they may involve the serious personnel irregularities or allegations of those, allegations of program irregularities, such as in the GI housing, schooling, et cetera. They are more of a major nature than individual-type complaints. Sometimes we get complaints of generally bad service at a VA field station or serious allegations against the manager or the director.

Mr. THOMAS. It must be that during the course of any fiscal year you will get 2,000 or 3,000 such complaints from various sources?

Mr. TURNER. There are a lot of individual complaints, sir, and if these appear to be fairly local or involve one person, many times these are referred to the field stations for handling.

Mr. THOMAS. All of your 93 are here in the District of Columbia, excusing 10. What part of that 83 here in the District of Columbia are engaged in reading those complaints, evaluating them, passing them out for investigation, and so forth?

Mr. TURNER. The people in the Investigation Service do this, sir.

Mr. THOMAS. How many?

Mr. TURNER. Altogether there are 32, but only 16 of them are investigators who travel and conduct investigations. Now, we also operate a laboratory in which we examine questionable documents——

Mr. THOMAS. I am not clear whose say-so it is about evaluating these complaints and so forth and so on. The Administrator never sees one, does he, unless it is something of some magnitude, involving some serious shortcoming or alleged shortcoming?

Mr. TURNER. We evaluate these complaints for the Administrator, sir.

Mr. THOMAS. How many people do you have doing that?

Mr. TURNER. As I said, we have 32 total people in the Investigation Service, 16 of which are investigators.

Mr. THOMAS. Does the investigator evaluate these?

Mr. TURNER. No, sir; we have a supervisory head and an assistant and they evaluate the complaints.

Mr. THOMAS. What is that civil service classification?

Mr. TURNER. The Director is a grade 15 and his assistant is 14.

Mr. THOMAS. And that is one subdivision inside the general division?

Mr. TURNER. It is one of three services of the Office of Appraisal.

Mr. THOMAS. How many people do you have in travel status out of your 93 people?

Mr. TURNER. It would be 55; 34 internal auditors, 16 investigators, and 5 field representatives.

Mr. THOMAS. You don't have but 40 internal auditors in the whole service. Thirty-four of those are auditors and the other six are clerical personnel?

Mr. TURNER. Supervisory and clerical; yes, sir.

Mr. THOMAS. What were some of the outstanding things accomplished by this unit say in the last 6 months?

Mr. TURNER. In the Internal Audit Service?

Mr. THOMAS. Yes.

AUDIT STUDY IN FOREIGN COUNTRIES

Mr. TURNER. In terms of special studies, sir, we made a study of VA activities in foreign countries. We also made a study of VA Chief Attorneys' functions.

Mr. THOMAS. VA activities in foreign countries? Do we have to go over there and make a study or do we do that in the Washington office?

Mr. TURNER. We went over there.

Mr. THOMAS. How many went?

Mr. TURNER. Two.

Mr. THOMAS. How long did they stay?

Mr. GLEASON. It was about a 4-month study.

Mr. TURNER. It was about 5 weeks, sir. I would have to check it.

Mr. THOMAS. Including transportation costs, per diem, and everything else, what did that study cost?

Mr. TURNER. I can tell you in a minute.

Mr. GLEASON. That particular study, Mr. Chairman, was an invaluable service to us. Mr. Driver and myself were over there a year ago in Europe and when we came back this is one of the reasons why the law passed by the Congress in the last session gave us permission to consolidate and open up our office in Rome rather than have just the attaché in London, Paris, Frankfurt, and Rome. Because there were so many of the widows who had remarried and not told us about it and were still receiving checks from the Government, I think that internal audit alone saved us a number of millions of dollars.

Mr. THOMAS. You have a little office in Frankfurt, you have a little office in Paris, you have a little office in London. You have had them for several years.

Mr. GLEASON. That is right, and now we are coordinating those through the Rome office.

VA FOREIGN OFFICES

Mr. THOMAS. What has been the function of those offices all along?

Mr. GLEASON. This has been under the Foreign Service itself, Mr. Chairman.

Mr. THOMAS. The justification for this 8 or 10 years ago was for the GI's who went to school over there. Now there is no justification for that. Under the law they had a right to go to school anyplace they wanted to. They were going to get so much money and that was it. So what was the justification of the VA keeping those offices for that purpose?

Mr. GLEASON. It wasn't exactly the Veterans' Administration that was keeping them, Mr. Chairman, because all of those personnel were transferred to the State Department as Foreign Service employees and because of the fact that they have other duties to do——

Mr. THOMAS. You paid the bill though, through transfer of funds.

Mr. DRIVER. When it started we did, Mr. Chairman.

Mr. GLEASON. We haven't paid it for a number of years.

Mr. DRIVER. The program was phased out and transferred to the State Department after the GI education program just about came to a close.

RESULTS OF FOREIGN AUDIT

Mr. THOMAS. What were the fruits of your audit?

Mr. GLEASON. It saved us a couple million dollars, Mr. Chairman, on finding and locating widows especially who had remarried and we had never received information pertaining to the remarriage.

Mr. THOMAS. Who are the widows, foreign nationals?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. And their husbands were living in the United States at the time of the war and they served in the American armed services?

Mr. GLEASON. Or married them overseas, sir.

Mr. DRIVER. During the war.

Mr. THOMAS. Therefore, under the law the veteran was entitled to certain benefits and those benefits are entailed to his family?

Mr. GLEASON. That is right, sir.

Mr. THOMAS. Well, what is the purpose in operating or opening an office? Were you trying to dig up the widows?

Mr. GLEASON. We are trying to dig out those widows, Mr. Chairman, who have remarried and therefore are no longer eligible for the moneys that the United States gives to them.

Mr. OSTERTAG. Was that the purpose of this service?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What was the net result of it?

Mr. GLEASON. I cannot tell you exactly how many millions of dollars it saved us, but it was in the millions.

Mr. THOMAS. Who are the three big participating countries—Italy, England, France?

Mr. GLEASON. The Philippines is the largest.

Mr. DRIVER. Greece, Italy, and France, with England coming in later.

Mr. OSTERTAG. How about Germany?

Mr. GLEASON. Very few, Mr. Ostertag. When they moved the office from Paris to Frankfurt——

Mr. THOMAS. What is the sum total, Mr. Administrator, sent overseas excluding the Philippines?

Mr. GLEASON. $25 million to $30 million.

Mr. THOMAS. Every year?

Mr. GLEASON. Yes, sir.

COST OF AUDIT

Mr. THOMAS. What did your survey cost you?

Mr. TURNER. The travel cost was $2,880. Salary is figured at $6,072 for a total of $8,952.

Mr. THOMAS. That is far from being excessive.

SAVINGS DUE TO AUDIT

How much money did you save by it?

Mr. TURNER. I don't know, sir.

Mr. GLEASON. We estimate a couple million dollars.

Mr. DRIVER. This is a continuing thing, Mr. Chairman, and the office which will be there now will try to make a permanent part of our operation through the Embassy a regular checking of cases on the rolls.

Mr. THOMAS. As a result of the investigation you opened up in the office in Rome?

Mr. DRIVER. Yes, sir.

Mr. THOMAS. How many people do you have there?

Mr. DRIVER. Three will go.

Mr. THOMAS. What does it cost you a year?

Mr. DRIVER. It hasn't cost us anything yet, because they haven't gone. It will cost in the neighborhood of $75,000.

Mr. THOMAS. It will cost you more than that?

Mr. OSTERTAG. That is for all of Europe?

Mr. GLEASON. Yes, sir.

STATE DEPARTMENT-VA OFFICES

Mr. DRIVER. This is just for the Veterans' Administration personnel. It won't be for the State Department people who also handle our work.

Mr. THOMAS. And your London office, your Paris office——

Mr. GLEASON. That is State Department.

Mr. THOMAS. But the United States is paying the bill and it deals with your subject matter and each one of those offices costs you considerably in excess of $100,000 or $150,000 a year.

Mr. BROWNSTEIN. None of those people work exclusively any more on veterans' affairs matters, Mr. Chairman. They have been integrated in the consular service and they work on a good many things. Social security, visas, etc.

Mr. THOMAS. They have no connection with the VA, then?

Mr. DRIVER. None.

Mr. BROWNSTEIN. They help with the claims, they see that the collections are made or the checks distributed, they help with getting examinations and hospitalization and so forth, but it is only one of several functions they now perform.

Mr. DRIVER. They have a larger function for Social Security than for us in any one location.

Mr. THOMAS. I don't see what the Veterans' Administration can do for one of these people. If they want to go overseas to go to school, the checks are going to be delivered to them.

Mr. DRIVER. We have to have the income questionnaire every year on pension cases. We found considerable fruit here because of misunderstanding of what is required in reporting income and that sort of thing. Coordinating these efforts among all of the embassies——

Mr. THOMAS. You are not in business to figure out income tax returns are you?

Mr. DRIVER. It is an income questionnaire for pension purposes. We have to get one each year.

PAYMENTS IN FOREIGN COUNTRIES

Mr. BOLAND. Why do you have to pay pensions in these countries?

Mr. DRIVER. We are paying them to former American servicemen who live there. The former American serviceman is entitled to it regardless of where he lives, Mr. Boland.

Mr. BOLAND. But this is a different matter. You would look upon this differently in a foreign country, I would think, than in the United States. You are talking about a pension given to somebody who is in need. This is almost in a pauper status. You have to make the same in the United States as he does but you are actually paying him a pension. This is not a service-connected compensation payment. This is a pension which you hand to a veteran in Italy or Greece or wherever he might be.

Mr. DRIVER. We pay it only because of the law.

Mr. OSTERTAG. Is it mostly dependents or widows?

Mr. DRIVER. The pension program is mostly living veterans, but we have many widows and children who also draw pensions.

Mr. THOMAS. Can't you make it mandatory that they sign something indicating they haven't remarried and have it validated by the State Department? They have a tremendous number of employees in all these Embassies and consulate offices.

Mr. BROWNSTEIN. Every check they get shows "unremarried widow," but this doesn't stop them from negotiating the checks after remarriage.

Mr. DRIVER. We find a great willingness to say almost anything to get dollars.

Mr. THOMAS. You can say to the American Embassy, "You go by there and have them satisfy the officer in charge that they are entitled to the check."

They have plenty of staff, don't worry about that. They are not understaffed.

Mr. EVINS. That is what the Embassy is for, to serve our nationals in those countries.

Mr. DRIVER. We find if we wait on the State Department we wait months and months to develop cases. If we find something irregular in a case here in Washington and ask it be investigated we find it will take weeks and the answer almost always is that they have no travel money.

Mr. GLEASON. When Mr. Driver and I were in France checking on this particular matter, Mr. Chairman, we found that out of the Embassy in Paris they had only been able to make five checks on unremarried widows in an entire year and——

Mr. THOMAS. I can tell you how to do it and it will cost you very little. Send the check to the American Embassy.

Mr. DRIVER. We do.

Mr. THOMAS. And say to the recipient, "Here it is. You satisfy our officer that you haven't remarried and you will get the check."

Mr. DRIVER. You have to go to the place where the person lives and talk to the people in the community. They are not going to inform on themselves.

Mr. EVINS. Mr. Driver, couldn't you send a team of two or three people from the VA over there once a year and have it be less expensive?

Mr. DRIVER. We believe it would be more expensive to keep them in a travel status that long rather than to operate out of a permanent station abroad.

Mr. SHIPLEY. How many are involved?

Mr. DRIVER. 2,000 in Greece, another 7,500 in Italy. About 16,000 in Europe I would say, very month.

Mr. SHIPLEY. May I ask another question?

Mr. THOMAS. Yes.

Mr. SHIPLEY. Based on the investigations you had, what percentage of the total recipients in these countries were found to be in a class of drawing it that weren't qualified?

Mr. DRIVER. In the last 5 or 10 years as a result of these checks, and this would include places like Hong Kong and Manila, the total reduction from the rolls has been several million dollars.

Mr. EVINS. This is outside the United States?

Mr. DRIVER. Yes.

Mr. BOLAND. What was the percentage on pensions alone?

Mr. DRIVER. I can't tell you. This involves compensation as well as pensions.

Mr. BOLAND. I am not concerned about the compensation payments but I am concerned about the pension payments. I know you have to pay it under the law but I think we ought to change the law with respect to our nationals in foreign countries and foreign nationals.

Mr. DRIVER. The biggest share of our benefit money going to Western Europe is for pension purposes. The largest share of it is going to the Philippines where we are spending $35.7 million a year for compensation and pension purposes.

Mr. THOMAS. What is the total of your 16,000 checks on an annual basis, a horseback estimate?

Mr. BOLAND. For pensions alone.

Mr. DRIVER. The 16,000 checks would amount to about $16 million per year; pensions alone would be about 13,000 checks at about $13 million.

Mr. BOLAND. This is just pure pensions, people who are living abroad?

Mr. DRIVER. That is right and they are totally disabled.

Mr. BOLAND. I think the pension laws should apply only to people residing in the United States.

Mr. OSTERTAG. Referring to the income factor, how do you deal with that? Is it the same criteria as applied here in the United States?

Mr. DRIVER. Yes, sir.

Mr. OSTERTAG. In other words, you investigate in foreign lands how much they might be earning to determine if they are violating the law as it applies to a limitation on income?

Mr. DRIVER. That is right.

There was a bill, Mr. Boland, which would have removed people permanently residing abroad from the pension program about 4 years ago and it was not passed in the Congress.

Mr. BOLAND. They didn't get anywhere?

Mr. DRIVER. No, sir.

MEDICAL CARE FOR OVERSEA RESIDENTS

Mr. GLEASON. And just in this last session, Mr. Boland, the Congress passed a bill authorizing medical care for these same people overseas.

Mr. BOLAND. What is the view of the Veterans' Administration on this type payment?

Mr. DRIVER. We took a position against that bill.

Out of all the bills we commented on last year I would presume we were in favor of about 10 percent of them, Mr. Boland, and they do cost a lot of money.

PENSION PAYMENTS TO FOREIGN RESIDENTS

Mr. BOLAND. Give us your reasoning why we should pay pensions to those who served in the Armed Forces of the United States who now want to live overseas. And the difficulty which it brings upon the Administration to search them out, determine what their earnings

are and what their disabilities might be and what their medical costs might be, or whether they are in need of medical attention.

Mr. DRIVER. It is far less expensive than it is to do it in this country, for that matter.

Mr. BOLAND. That is not the question. I didn't ask that question at all.

Mr. GLEASON. The basic reason, Mr. Boland, is the fact that the Congress stated that we will pay.

Mr. BOLAND. I know, Mr. Administrator. I understand why you have to do it. There is no quarrel here, but I would like to know whether or not you agree with this law.

Mr. DRIVER. Several years ago when the bill I referred to was introduced, Mr. Boland, we took a position against removing from the pension rolls former American soldiers of war service who earned the right to pension under the law as it was at the time they served, on the grounds that the only reason for the program in the first place was war service.

The question of need and permanent disability in our opinion can apply to a person regardless of where he lives, and the question of residence in these days it seems to us has become one which reaches all around the globe.

This includes people living in South America, in Canada, Italy, and Greece.

Mr. THOMAS. Aren't you advocating a bunch of paid mercenaries?

Mr. DRIVER. These are American veterans the same as anyone else.

Mr. THOMAS. They are not American citizens and they are not living in the United States. What it amounts to, he was a mercenary, bought and paid for. You pay him for his services.

Mr. GLEASON. Many of them are American citizens, Mr. Chairman.

Mr. DRIVER. This is the reason they changed the law the last time to pay medical benefits.

Mr. THOMAS. There is no squabble about that, if he is an American citizen. We are talking about the foreign nationals now. Let's confine our thinking here.

Mr. DRIVER. They were subject to the draft and served honorably in war service.

Mr. EVINS. General De Gaulle says, "Yankees, go home." We had better let them come home and get their checks over here.

Mr. OSTERTAG. The same principle applies to social security, does it not?

Mr. DRIVER. That is right.

Mr. OSTERTAG. In other words, the benefit follows you wherever you may be?

Mr. DRIVER. That is right.

Mr. OSTERTAG. I believe there are literally thousands or hundreds of thousands of social security checks that are being mailed all over the world today.

Mr. DRIVER. Far more than that. There is railroad retirement, civil service; they all have it.

Mr. BOLAND. This is something different from railroad retirement and civil service. That is something they have earned. These employees have paid into the retirement system. I don't know because

you serve in the Army of the United States that you earn a pension—that you earn this or that. Patriotism is something which is important. This system of government under which we all live is important. So you cannot compare it to the civil service payments or railroad retirement at all.

Mr. THOMAS. Half of that money is their own under the civil service retirement. They made a contribution to it all the years they were working.

Mr. BOLAND. You don't want to leave it on that basis, do you?

Mr. BROWNSTEIN. It all depends on how you earn it. It has been suggested that since there was a contribution made by the individual, he is put in a different category than the one who is entitled to this by reason of his service.

Mr. OSTERTAG. That is right.

Mr. BROWNSTEIN. It is a question of payment either in cash or in kind.

Mr. DRIVER. Much of the social security payment, Mr. Boland, is going abroad because the veterans who served, while they were serving got $160 a month credit toward social security. They didn't pay a nickel, except that their service paid for it and that is the same principle for the pension.

Mr. THOMAS. Yes; but outside of that he made a contribution out of every paycheck?

Mr. DRIVER. Not during service.

Mr. THOMAS. No; nobody did.

Mr. DRIVER. But the man who was killed during service, his widow is undoubtedly drawing social security because of the automatic credit paid to his account during his service of $160 a month.

POLICY OF OTHER GOVERNMENTS

Mr. THOMAS. Let's reverse the matter. What did the British and what did the other foreign governments do in this field?

Mr. DRIVER. The other foreign governments didn't pay pensions. I think Israel is about the only country that does.

Mr. THOMAS. What did Canada do?

Mr. DRIVER. Canada pays their men while they are here but their benefit is almost exclusive with compensation.

Mr. THOMAS. You folks had an office in England and France.

What did the British do in this field?

Mr. DRIVER. They don't pay pensions in the sense we are talking about now. They compensate for service-connected disability and that is about all, and they pay that anywhere they are.

Mr. THOMAS. So we are not saying if it is a Greek or an Italian boy living in England at the time of the war and he joined——

Mr. DRIVER. He would get compensated in the case of injury, and they would pay him that when he went back to Greece. But they do not pay him for being in need.

Mr. EVINS. He wouldn't be compensated as well as an American veteran in any event?

Mr. GLEASON. Definitely not.

Mr. OSTERTAG. Mr. Chairman, I don't know whether this is the proper place to raise this question, but I understand that the Veterans' Administration through the Census Bureau has been mailing a questionnaire to literally all veterans who are receiving benefits or to veterans who are in some way associated with benefits of one form or another.

Mr. DRIVER. About 47,000, Mr. Ostertag.

Mr. OSTERTAG. In any event you are sending out a questionnaire to veterans.

Mr. DRIVER. A sample, that is right.

Mr. OSTERTAG. What is the basis or purpose of this questionnaire?

Mr. DRIVER. The Census Bureau has made a random sampling.

Mr. OSTERTAG. You are making a sampling?

Mr. DRIVER. Yes, sir.

Mr. OSTERTAG. As you know, there has been some degree of unfavorable reaction to this questionnaire throughout the country.

Mr. DRIVER. No; is that right?

Mr. OSTERTAG. It is my understanding that many veterans resist or resent some of the questions that are being asked.

Now my question is, Does this same questionnaire go overseas where you are seeking this same information or are you just limiting it to the United States?

Mr. GLEASON. It is limited to the 50 States.

Mr. OSTERTAG. What is the purpose of this questionnaire?

Mr. DRIVER. The primary purpose is to get data regarding veterans status and we are making an effort to use the same questionnaire for disabled veterans to validate the disability rating schedule.

You know under the rating schedule we pay different amounts for disability to compensate the man for his economic loss. We haven't made a check on the amount of economic loss by degree of disability, by disease category for many, many years.

Mr. OSTERTAG. Whether it be service connected or not?

Mr. DRIVER. Only service connected. We are only talking about the service-connected veteran.

Mr. GLEASON. Which has nothing at all to do with pensions.

Mr. DRIVER. That is right. We do not know whether $60 a month for the loss of a leg below the knee adequately compensates the man for his economic loss or not, today.

Mr. OSTERTAG. Consequently it is limited to those veterans who are currently receiving disability compensation that receive this questionnaire?

Mr. DRIVER. Who have a disability of a certain kind; yes, sir. And they have tried to make a correct sampling so the data will be reliable for a larger universe than the sample.

Mr. OSTERTAG. It may be that the inquiry goes beyond the necessary information you seek. For one reason or another there has been a bitter reaction in some quarters.

Mr. DRIVER. We haven't heard anything about that, Mr. Ostertag.

Mr. GLEASON. We haven't gotten any flak on that at all, Mr. Ostertag.

COST OF OVERSEA PENSION PAYMENTS

Mr. EVINS. How much does it cost the VA or the American Government to process, to finance, to service this $13 million worth of pension payments that are paid overseas? Annually, how much does it cost in investigating, looking into it, and so forth?

Mr. DRIVER. Our administrative costs throughout the VA are about 3 percent, Mr. Evins.

Mr. EVINS. How much does it cost in dollars every year?

Mr. DRIVER. The general operating bill is about $160 million.

Mr. GLEASON. For those in Europe, Mr. Evins, we think the office in Rome will be able to handle this adequately, and as Mr. Driver has mentioned this will be in the nature of $60,000 to $75,000 a year.

Mr. EVINS. Do you think you could have an expert team of two or three men and give them a trip once a year and have them look into this more cheaply than you could maintain an office? You need it about once a year to make an appraisal of it.

Mr. GLEASON. We have to keep the folders on all these people somewhere, Mr. Evins, and if it goes by mail sometimes it takes anywhere from 5 weeks to 2 months to reach the Veterans' Benefits Office in Washington. The Rome office is set up more like our office in Manila.

Mr. THOMAS. In response to Mr. Evins' question I think we have the record all mixed up. Now, let's straighten it out.

How many cases do you have overseas of foreign nationals?

Mr. GLEASON. About 16,000 total cases in Europe including foreign nationals.

Mr. THOMAS. Mr. Driver gave the figure a while ago, Mr. Boland, that there is an annual cost of $16 million. The Administrator came up just then with a figure of around $65,000 for administrative costs for Rome. Now what is the actual cost for administrative expense on pensions for those foreign nationals who served with us during the war?

Mr. DRIVER. You are talking about all expenses, developing cases, continuing them on the rolls, and so on?

Mr. THOMAS. Yes.

Mr. DRIVER. We do not have that figure.

Mr. THOMAS. Is the figure for compensation and pensions about $65 million?

Mr. GLEASON. No, sir; $35.7 million is the amount we pay in the Philippines for compensation and pensions.

Mr. DRIVER. About $22 million more in all other countries.

Mr. GLEASON. That is about $16 million as a round figure for Europe.

Mr. THOMAS. That is for Europe?

Mr. GLEASON. Yes, sir.

OPERATIONS IN THE PHILIPPINES

Mr. THOMAS. How about the Philippines, what are we spending there?

Mr. GLEASON. About $47 million in fiscal year 1962 for all benefits.

Mr. THOMAS. And what is that?

Mr. GLEASON. Most of this is compensation for veterans of the Philippines who fought for us during World War II. Then it was a territory.

Mr. THOMAS. They are only drawing compensation?

Mr. GLEASON. In the majority of cases; yes, sir.

Mr. DRIVER. The ones who draw pensions are those who served in our Armed Forces before they achieved a Commonwealth status.

Mr. THOMAS. The Philippine Scouts?

Mr. DRIVER. Yes, sir.

Mr. THOMAS. What is the amount of dollars and cents you send over there either for compensation and pensions——

Mr. GLEASON. It would be about $35.7 million for compensation and pensions, and about $50 million for all VA expenditures.

Mr. THOMAS. For the Philippines alone?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. How many people do you have over there?

Mr. GLEASON. About 318 people, which makes about 53 percent of the entire Embassy staff.

Mr. DRIVER. And about 25 of those are Americans. The others are Filipinos.

Mr. GLEASON. And they do not get paid on the same wage scale.

Mr. THOMAS. Does that take care of the hospital and everything? They operate their own hospital?

Mr. DRIVER. We pay a per diem for the hospital.

Mr. THOMAS. It has nothing to do with the hospital?

Mr. DRIVER. They pay the hospital.

Mr. THOMAS. How many employees do you have?

Mr. GLEASON. About 318 right now, Mr. Chairman.

Mr. THOMAS. What do the 318 do? What is the total number of beneficiaries receiving compensation and pensions?

Mr. GLEASON. It would run I believe close to 55,000 cases out of about 340,000 Philippine veterans.

Mr. THOMAS. 55,000 cases out of 340,000 veterans?

Mr. GLEASON. Yes.

Mr. THOMAS. Are all the checks written over there and all the paperwork and everything done there?

Mr. DRIVER. The checks are written there. The Treasury has a disbursing office in Manila.

Mr. THOMAS. All the bookkeeping and records are there?

Mr. DRIVER. No, sir; the death claims are developed in Washington. During the Korean war the Army removed all of these records out of that country and brought them to this country. And because of that we get the applications in Manila; they are developed by adjucative personnel of the Veterans' Administration: they get the necessary evidence from the claimant but then that information is sent to Washington and compared with the military records of the former service person, which are here, and the award is set up from here.

After that happens all of the continuing work to make the monthly payments is carried on in the Philippines.

So they perform the initial development and continue the case after the adjudication.

Mr. THOMAS. Does the same scale of disability apply to them as applies to American-born and the same scale of disability is paid?

Mr. DRIVER. The same scale of disability is paid but they are paid in pesos.

Mr. THOMAS. The foreign exchange rate is——

Mr. DRIVER. It is about a quarter of the rate today.

Mr. THOMAS. What is the rate now?

Mr. GLEASON. 3.98 pesos per dollar.

Mr. THOMAS. Do you pay them in dollars or pesos?

Mr. DRIVER. They are paid in what is called a lipstick check. It is a Treasury check with a red line across it. They get a peso for a dollar.

Mr. GLEASON. In other words, the veteran who is drawing 40 percent compensation disability in the United States is paid in dollars. A veteran of the Philippines who fought with us would get exactly the same number of pesos that the American gets in dollars and the pesos is running right now about 4 to 1.

Mr. THOMAS. So it costs you about 25 cents on the dollar?

Mr. GLEASON. Yes, sir.

PAYMENTS IN OTHER COUNTRIES

Mr. SHIPLEY. What about other countries?

Mr. DRIVER. It is payable in dollars. Dollar for dollar.

Mr. THOMAS. How about Greece and Italy?

Mr. GLEASON. These are paid in dollars.

Mr. THOMAS. If a man gets 40 or 50 American dollars in Greece or Italy, he is doing pretty well, then?

Mr. DRIVER. He cannot get dollars in Italy because he has to cash his check at the national bank and they of course will only give him lira.

Mr. THOMAS. Yes, but he gets the equivalent.

Mr. DRIVER. Yes, sir.

Mr. THOMAS. Why make fish out of one and fowl out of the other? Why penalize the Filipino, then, and not the others?

Mr. DRIVER. Congress in its wisdom, Mr. Thomas, decided to do this for the Philippines and I believe that is the right way because just last year the State Department again examined this situation and found that on the peso-per-dollar basis the average Philippine citizen living on the Philippine economy lived just as well as the American who gets dollars in Washington and New York.

Mr. THOMAS. We are not talking about the Philippines now; we are talking about the other nationals.

I see now, Mr. Boland, why these patriotic Greeks and Italians went home. They get $50 or $60 American money.

Mr. DRIVER. He can live a lot better, there is no question about it.

Mr. THOMAS. He has got it made. So you have given him an invitation to get out of the United States.

Mr. EVINS. Then we service him over there.

Mr. OSTERTAG. Did I understand Mr. Gleason to state that pensions and compensations are paid in dollars in foreign countries?

Mr. DRIVER. Payments other than in Manila.

Mr. GLEASON. Other than in the Philippines, Mr. Ostertag, pensions and compensation are paid in dollars. In the Philippines they are paid in pesos.

Mr. DRIVER. Except to the scouts. We pay them in dollars.

Mr. OSTERTAG. We are talking about compensation and pensions?

Mr. DRIVER. Both.

EMPLOYEE TRAVEL—ASSISTANT ADMINISTRATOR FOR APPRAISAL

Mr. THOMAS. You have a pretty good travel bill here in the office of the Assistant Administrator for Appraisal of about $153,000. How many do you have in travel status?

Mr. TURNER. Fifty-five.

Mr. THOMAS. How much is that per man per year for travel?

Mr. TURNER. I would have to get that figure for you, sir.

Mr. THOMAS. Well, that is not much. It is about $3,000 a year.

Mr. TURNER. Our travel averages, I think, about——

Mr. THOMAS. What is the length of time he stays on one assignment? Give us a little information on that.

Mr. TURNER. Our field station audits last 4 to 7 weeks depending on the size of the station. Length of time on investigations depends completely on the particular case.

FIELD STATION AUDITS

Mr. THOMAS. How often do you give your hospitals or your installations a general audit?

Mr. TURNER. We have not audited all of them yet, sir. We have audited roughly two-thirds——

Mr. THOMAS. Do you mean you haven't even audited them that first time?

Mr. TURNER. Not all of them, no, sir.

Mr. THOMAS. Why?

Mr. TURNER. We just haven't gotten around to all of them yet.

Mr. THOMAS. Do you rely upon the General Accounting Office to do it, or what?

Mr. TURNER. No——

Mr. MONK. The program people have their own survey staffs who go in on a program basis. The internal audit is approached from a management standpoint across the board. So we have people in these field stations looking at various segments of the stations almost every year.

Mr. THOMAS. How many installations do you have?

Mr. GLEASON. 169 hospitals and 93 clinics, 18 domiciliaries and 1 restoration center.

Mr. THOMAS. Most of your clinics are combined now with your hospitals, are they not? How many men do you have in these field stations, these 5 stations with 10 men? They don't do that much auditing, do they?

Mr. TURNER. These 34 auditors, sir, are stationed here in Washington and travel out of Washington. The field representatives do not make audits.

Mr. MONK. This budget contemplates only 10 field station audits this year.

GAO AUDITS OF VA ACTIVITIES

Mr. THOMAS. What services does General Accounting Office render VA in the way of internal audits?

Mr. MONK. They also make field station audits. We coordinate their work with the work of these internal auditors so that we don't duplicate.

Mr. THOMAS. The General Accounting Office has sent over to the committee two or three segments of audits they have had with the VA where they have made certain criticisms, but it would appear to me that the VA with all this tremendous personnel of theirs would do well to audit each installation every year from top to bottom, and that includes the regional offices where the big money is spent.

Mr. BAKER. Mr. Chairman, in the medical service we have a crew of fiscal auditors who audit all hospitals for which we have accounting responsibility at least once every 18 months.

COMPENSATION AND PENSION AUDITS

Mr. THOMAS. What audit is done with reference to compensation and pensions?

Mr. BROWNSTEIN. We have survey specialists who go into the field stations, Mr. Chairman, but in addition we have installed what we call statistical quality control. This means that a representative number of random sample cases come into central office every month and all of the adjudicative activity is looked at from one end of that case to the other.

In every program within the Department of Veterans' Benefits, we have survey specialists who go to the regional offices and look at the technical proficiency of management as well as every aspect of the particular program.

Mr. THOMAS. You have a big office in Brooklyn. In any of your large cities what scrutiny do you give your Compensation Board in all their decisions?

Mr. BROWNSTEIN. As I mentioned, a representative number of their cases will automatically come into Washington for review. In addition to that, we will have compensation and pension survey specialists go to the field stations and make a site review of the operations.

Mr. THOMAS. What is the nature of the review?

Mr. BROWNSTEIN. Case analysis, quality, and manpower utilization. They run the entire gamut from one end of the operation to the other.

Mr. THOMAS. How many people do you have engaged in this?

Mr. BROWNSTEIN. In the survey work?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. In compensation and pensions we have 11.

Mr. FARMER. Brooklyn is one being visited at the present time by three technicians to accomplish this survey.

Mr. THOMAS. You have 11 people doing that?

Mr. FARMER. We have 11 people plus——

Mr. THOMAS. How many people are drawing compensation and pensions in total?

Mr. FARMER. 4.3 million.

Mr. THOMAS. And 11 people are checking this?

Mr. FARMER. That is what I want to amend. In addition to the 11 assigned to that, we also draw on the resources of 40 other consultants, and they supplement the efforts of those 11 people.

There is another program which goes on at the local regional office where they are audited too.

Mr. BROWNSTEIN. There is also a built-in audit at the computers.

Mr. DRIVER. Of course those cases have been on the rolls for years and don't change, Mr. Chairman.

Mr. OSTERTAG. How many of the 4 million are permanently rated?

Mr. DRIVER. Permanently? All of them.

Mr. BROWNSTEIN. We also have a built-in audit from our computer and data processing center at Hines, Ill.

Every month we random sample a certain number of cases. This will run about 2 percent of the total per year and these cases are physically audited to see that the payment is proper, that there can be no tampering with any of the input data into the computers and it is a fiscal audit that is performed there as well.

OPERATION OF RATING BOARDS

Mr. THOMAS. How many people are on your board in each one of your field offices in the regional offices?

Mr. BROWNSTEIN. On the rating boards?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. Three.

Mr. THOMAS. What is the nature of their skills?

Mr. BROWNSTEIN. Well, there is a lawyer and an occupational specialist and a medical specialist.

Mr. THOMAS. All employees of the VA?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. What supervision does the rating board have?

Is their decision final, unless there is an appeal taken from it?

Mr. BROWNSTEIN. The authorizer will review this action.

Mr. THOMAS. The authorizer. You mean somebody checks his own action?

Mr. BROWNSTEIN. No. This is a separate person.

Mr. THOMAS. Who is the authorizer?

Mr. BROWNSTEIN. An authorizer is a man in a position apart from the rating board.

Mr. THOMAS. Where is he stationed?

Mr. BROWNSTEIN. In the regional office.

Mr. THOMAS. He is a part of the rating board, then?

Mr. BROWNSTEIN. No, sir. He is a part of the authorization activity.

Mr. THOMAS. What say-so in the process does the regional manager have?

Mr. BROWNSTEIN. He, of course, has overall responsibility and the regional manager also, through his office, conducts a quality review. The division chiefs, section chiefs, of adjudication divisions all take random samples.

Mr. THOMAS. Does the regional manager have authority to say to the rating board, "I do not like the result of your decision"?

Mr. BROWNSTEIN. No, sir.

Mr. DRIVER. He can take an appeal to the board of appeals on the decision but he cannot alter it.

Mr. THOMAS. He has no authority, then?

Mr. DRIVER. Not to decide the case. He has authority to review it, to see whether there are irregularities in the decision and if he finds them, he has a clear channel to do something about it.

Mr. THOMAS. He can do like the veteran. He can appeal to the appeals board in Washington.

Mr. DRIVER. If he thinks the case was improperly decided, because of bad evidence, he can write to the Chief Benefits Director and undoubtedly have the board either disciplined or removed.

Mr. OSTERTAG. Can he require the rating board to reconsider or review?

Mr. DRIVER. Yes.

Mr. THOMAS. Repeat that, please.

Mr. DRIVER. He can. Mr. Ostertag asked whether he could have the rating board reconsider or review. He not only could do that, but he could ask that the case be reviewed by another rating board.

Mr. THOMAS. He has that statutory authority?

Mr. DRIVER. Regulatory. It is in the regulations. So does the adjudication officer, the man in charge of the division that the rating boards function in.

Mr. THOMAS. Is it mandatory after he makes that request that it be followed?

Mr. DRIVER. Yes, sir.

Of course, if any case—let's say it is an office with only one rating board so he would not have the advantage of going to another one. He can always write to the Chief Benefits Director in Washington and ask that the case be reviewed by a board of specialists here. In addition, after that he can go to the Board of Veterans' Appeals.

Mr. THOMAS. Does that ever happen?

Mr. DRIVER. Many, many times, yes, sir; in cases of honest difference of opinion.

Mr. OSTERTAG. Do you have authority to take it away from the Rating Board?

Mr. DRIVER. Yes, sir; and direct the action.

Mr. OSTERTAG. But not to change the decision?

Mr. DRIVER. Yes, sir.

Mr. OSTERTAG. It does not necessarily go to the Appeals Board for such a change?

Mr. DRIVER. No. Especially where the question is one of interpreting the law or interpreting a regulation. Many times a veterans representative of a veterans organization will write Mr. Gleason and ask that the case be reviewed here. It will then be brought into a group of specialists in the Compensation and Pension Service, not the Board of Appeals, and that may very well result in a new decision.

Mr. OSTERTAG. You left the impression in response to the chairman's question that the only avenue for a change was through the Board of Appeals.

Mr. DRIVER. No; I did not mean that. If I did, I am sorry, sir.

The point I was making with Mr. Thomas was that the manager is not considered an arbiter on the case. That is all.

Mr. OSTERTAG. I understand.

INFORMATION SERVICE

Mr. THOMAS. Gentlemen, let us take a look at your Information Service, $532,000. Put pages 5–11 and 5–12 in the record.

(The pages referred to follow:)

GENERAL ADMINISTRATION

Information service, $532,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	39	43	43	
Personnel compensation	$326,319	$390,119	$418,444	+$28,325
Personnel benefits	24,138	28,981	30,956	+1,975
Subtotal	350,457	419,100	449,400	+30,300
Public Law 87-793 pay increase		(19,000)	(43,000)	(+24,000)
Travel and transportation of persons	18,753	21,300	21,300	
Transportation of things	1,952	1,500	1,500	
Other services	47,773	57,100	55,000	−2,100
Supplies and materials	3,566	3,800	3,800	
Equipment	2,678	4,200	1,000	−3,200
Total cost	425,179	507,000	532,000	+25,000
Public Law 87-793 costs		(19,000)	(43,000)	(+24,000)

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, et cetera, 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, et cetera.

Mr. THOMAS. You had 39 employees in 1962, 43 in 1964.

Mr. GLEASON. May I ask if we could take this up a little bit later? Mr. Hood is working on something I discussed with you earlier. If we could, I would appreciate it very much.

Mr. THOMAS. Very well.

GENERAL COUNSEL'S OFFICE

What about the General Counsel's Office? We did not take a look at that yesterday?

Mr. GLEASON. No, sir.

Mr. THOMAS. Put page 5–16 in the record. This relates to the General Counsel's Office.

(The page referred to follows:)

GENERAL ADMINISTRATION

General Counsel, $1,248,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	99	104	104	----------
Personnel compensation	$899,173	$1,011,050	$1,049,126	+$38,076
Personnel benefits	65,797	73,884	82,824	+8,940
Subtotal	964,970	1,084,934	1,131,950	+47,016
Public Law 87-793 pay increase	----------	(50,500)	(93,100)	(+42,600)
Travel and transportation of persons	6,329	9,350	9,350	----------
Transportation of things	----------	861	----------	−861
Other services	228	700	700	----------
Supplies and materials	7,725	11,000	11,000	----------
Equipment	4,258	10,000	10,000	----------
Insurance claims and indemnities	83,851	331,155	85,000	−246,155
Total cost	1,067,361	1,448,000	1,248,000	−200,000
Public Law 87-793 costs	----------	(50,500)	(93,100)	(+42,600)

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) making final disposition of tort claims; (5) supervising and coordinating matters pertaining to proposed legislation, Executive orders and proclamations; (6) maintaining liaison with both Houses of Congress and (7) acting on applications for recognition of service organizations and accreditation of their representatives.

Summary of major workloads

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
1. General Counsel opinions requested	1,389	1,450	1,450
2. Chief attorneys opinions reviewed	775	800	800
3. Litigation briefs	1,733	1,750	1,750
4. Administrative tort claims received	138	140	140
5. Legislative history files maintained	954	1,900	[1] 950
6. Legislative reports prepared	395	[1] 320	400
7. Studies conducted and résumés prepared	298	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 1st session of a Congress to be more active in the introduction of bills than the 2d session.

Mr. THOMAS. (reading):

The primary responsibilities of the Office of the General Counsel are: (1) Rendering advice and opinions directly and through chief attorneys.

Are you on speaking terms with the chief attorneys?

Mr. BRICKFIELD. Yes, indeed.

Mr. THOMAS. (reading):

(2) Reviewing for legal correctness all regulations and directives; (3) collaborating with the Department of Justice on litigation; (4) making final disposition of tort claims—

what do you mean "final disposition of tort claims"?

Mr. BRICKFIELD. We have authority to compromise and settle tort claims up to $2,500 and anything over that the Department of Justice handles.

Mr. THOMAS. Your chief attorneys in the field do not handle any tort claims?

Mr. BRICKFIELD. Yes. They also have authority to settle tort claims up to $2,500.

Mr. THOMAS. Who settles them, the chief attorney or the chief counsel?

Mr. BRICKFIELD. This year, Mr. Chairman, we have decentralized this activity and I would say for the first 10 months the final decision was with me and in the last 2 months or so the final decisions have been in the chief attorneys, although I send my people out by way of surveillance and we look to see in what amounts they are settling these cases.

ACCREDITATION OF SERVICE ORGANIZATION'S REPRESENTATIVES

Mr. THOMAS (reading):

(5) Supervising and coordinating matters pertaining to proposed legislation, Executive Orders and proclamations; (6) maintaining liaison with both Houses of Congress—

that takes quite a bit of time—

(7) acting on applications for recognition of service organizations and accreditation of their representatives.

What does that mean?

Mr. BRICKFIELD. As you know, the service organizations have service officers. They are not usually attorneys. They are people who are employees of these service organizations who represent claimants before the VA in processing claims.

We pass on their qualifications. Also attorneys are recognized by us to practice before the VA and the Board of Veterans Appeals.

Mr. THOMAS. I did not think you had any limitations. John Doakes could appeal before the Rating Board if the Board wanted to hear him. Where does the Chief Justice come in?

Mr. BRICKFIELD. You know, Mr. Chairman, a private individual can try his own case in a court of law too, but for safety sake, and I guess the public welfare, the States require qualifications for attorneys to practice. So it is here. An individual can try his own case in the Veterans' Administration but when the service organizations prosecute the case for him we make certain that these people are qualified.

Mr. THOMAS. What do you do to make certain they are qualified? We don't mind, Chief Justice, your putting down all these activities if they are really activities. We just do not like all these words. What do you do to see that they are qualified? Do you tell them to go back to school?

Mr. BRICKFIELD. No.

Mr. THOMAS. Have you ever turned down one the American Legion said they wanted represented?

Mr. BRICKFIELD. Yes, sir. The service organization itself processes these people. If they feel they are qualified, I must in all honesty say to you that we pretty much accept, but we do on occasion turn them down but more frequently, when they have been accredited, we take them off the rolls.

Mr. SHIPLEY. Could we have an example, Mr. Chairman, of some that they have turned down?

Mr. THOMAS. Yes.

Mr. BRICKFIELD. Why do we turn them down? Sometimes we feel that there is a conflict of interest between what they are doing for the service organization and the individual, and the Government.

NUMBER OF LAWYERS

Mr. THOMAS. You have 104 people. How many lawyers are there?

Mr. BRICKFIELD. Forty-nine, sir.

Mr. THOMAS. Where are your green sheets on the lawyers? Do I have to go back to the large chart?

Mr. MONK. Yes, sir.

Mr. THOMAS. What do you pay them?

Mr. BRICKFIELD. The average salary, I think, is $10,000.

Mr. THOMAS. There is 1 at 18, 5 at 16, 1 at 15, 48 GS–11 to 15.

Mr. GLEASON. That is right.

Mr. BRICKFIELD. They are lawyers.

Mr. THOMAS. You have more than 45 lawyers, then. There is 15, 48, 52, 54, 55. That is what you said a while ago.

Did you not say 45 or did you say 55?

Mr. BRICKFIELD. I have 49 attorneys on my staff.

Mr. THOMAS. According to this, if I add it up correctly you have about 55.

Mr. BRICKFIELD. I do not believe so.

Mr. DRIVER. I think the difference is all those between 11 and 15 are not attorneys. Some grade 11's are not attorneys.

Mr. THOMAS. What do the grade 11's do if they are not attorneys?

Mr. BRICKFIELD. I have 49 attorneys who are all GS–11 or above. In addition there are five employees in GS–11 or above in our Liaison Service and our law librarian is a GS–11.

Mr. THOMAS. What do the grade 11's do?

Mr. BRICKFIELD. The grade 11 is a junior attorney, in a trainee position. He handles, I would term it the least difficult work in the office.

Mr. THOMAS. What are your qualifications for your lawyers?

Mr. BRICKFIELD. Any person who is admitted to the bar is a qualified attorney and if he is a recent law school graduate with two years experience we start him out at 11. If he has 3 or 4 years service, we will start him out as a 12 or a 13.

TRAVEL

Mr. THOMAS. What do all these figures mean on your workload? You have $9,350 for travel. Where do the lawyers travel to?

Mr. BRICKFIELD. My travel and transportation is $9,350 and a goodly portion of that, Mr. Thomas, is taken up by witness travel. We have $1,600 for witness travel and $6,200 for our employee travel to the various regional offices.

I have a setup whereby someone from my office visits each chief attorney once every 2 years.

JURISDICTION OVER CHIEF ATTORNEYS

Mr. THOMAS. You do not have jurisdiction over the chief attorney, do you?

Mr. BRICKFIELD. Yes. I have a good deal of jurisdiction.

Mr. THOMAS. Tell us about it.

Mr. BRICKFIELD. I am responsible for all legal opinions that any chief attorney renders and as you can imagine they render quite a number of opinions.

Mr. THOMAS. In all the guardianship cases?

Mr. BRICKFIELD. Yes, and loan guarantee. I am responsible for all litigation in State courts as well as in the Federal courts. We have a good deal of criminal matters and criminal prosecutions in false claims, fiduciaries, embezzlement, all crimes that happen in a Federal hospital. We also have tort claims, malpractice cases, and the like.

WORKLOADS—GENERAL COUNSEL

Mr. THOMAS. Where is your workload on your courthouse activities?

Mr. GLEASON. Page 5–16, Mr. Chairman.

Mr. BRICKFIELD. I do not have it broken down except on page 5–16, where No. 3 is "litigation briefs."

Mr. THOMAS. That is where I read about your duties a while ago. You have opinions requested, 1,450 for 1963 and 1,450 for 1964. Who requests these—Members of Congress?

Mr. BRICKFIELD. No. Occasionally Member of Congress but usually from the Department of Veterans Benefits, the various chief attorneys and also from the other elements in central office itself, like the Department of Medicine and Surgery.

Mr. THOMAS. You set out 1,750 litigation briefs.

Mr. BRICKFIELD. These are cases we have in which we develop the facts and the law for the Department of Justice.

Mr. THOMAS. How many cases do you have pending in the Federal courts?

Mr. BRICKFIELD. I think 3,000.

Mr. THOMAS. You do not set that out here, do you?

Mr. BRICKFIELD. I do not have it broken down.

Mr. THOMAS. How many do you have pending in State courts?

Mr. BRICKFIELD. I do not know.

Mr. THOMAS. Those cases are all handled by your chief attorneys in the field, are they not?

Mr. BRICKFIELD. Yes.

Mr. THOMAS. Do you have any jurisdiction over those cases?

Mr. BRICKFIELD. Yes, sir.

Mr. THOMAS. What do you do about it? What is your jurisdiction?

Mr. BRICKFIELD. I am responsible for litigation in all State court cases and it usually runs largely in the guardianship area, where there are guardians appointed for minor children and incompetent veterans.

RELATIONSHIP WITH CHIEF ATTORNEYS

Mr. THOMAS. Suppose your chief attorney in installation X thinks it is time to go in here and remove one of the guardians? Does he have to get permission from the Washington office to do it?

Mr. BRICKFIELD. No, sir.

Mr. THOMAS. Where do you come in, then, as far as regulation of activities of the chief attorneys in the field?

Mr. BRICKFIELD. Largely in the area of legal opinions, not too much in the area of court litigation, but I do not want to minimize the court litigation. We have quite a few problems on titles to land and things of that nature. Also we have quite a large conflict of law practice where the States of Michigan, say, and Maryland may be concerned and in that area we get in with the chief attorneys in the States.

Mr. EVINS. Suppose a beneficiary under some guardianship case wants the amount of compensation increased. Do they come to Washington to get an opinion whether that can be done or not?

Mr. BRICKFIELD. No. It is handled at the local level but if there is any doubt in the chief attorney's mind and he wants an opinion from us he writes us.

Mr. EVINS. He generally can decide it locally?

Mr. BRICKFIELD. He decides it if there is a precedent opinion by the General Counsel, yes. It is something like stare decisis.

Mr. THOMAS. Mr. Administrator, is this a very happy arrangement? How is it working out between your chief counsel's office in the District of Columbia and your field activities?

Mr. GLEASON. I think it works out very well, Mr. Chairman.

Mr. THOMAS. It is our general understanding that people in the field are just about as independent as a hog on ice as far as Washington is concerned. They run their own show.

Mr. GLEASON. To a certain extent this is true, Mr. Chairman.

Mr. THOMAS. What would you say, Mr. Chief Justice, is your one big activity or your two big activities? Your office here?

Mr. BRICKFIELD. I would say legal opinions and briefs, and——

Mr. THOMAS. To the Members of Congress and the various organizations?

Mr. BRICKFIELD. I am also principally responsible for all legislation.

Mr. THOMAS. That is a tremendous responsibility, is it not?

LEGISLATIVE REPORTS AND FILES

This table shows legislative reports prepared, legislative history files maintained, studies conducted, and résumés prepared. What do you mean by that?

Mr. BRICKFIELD. You mean in all three categories? Each in order, we keep a file on every bill that is introduced in Congress. This is on

item No. 5. We keep a file on those matters of interest to the Veterans' Administration.

Mr. THOMAS. Isn't that a lot of waste of time and effort?

Mr. BRICKFIELD. No, sir. You can see in one Congress we prepare about 700 reports.

Mr. THOMAS. Where is that set out?

Mr. BRICKFIELD. This is item No. 6.

Mr. THOMAS. Legislative reports prepared—not 600.

Mr. BRICKFIELD. If you add 1963 and 1964, it will come to about 700.

Mr. THOMAS. Do you give quite an exhaustive study and report to everybody, every Member of Congress, or is it just the bills that have been under active consideration and a request is made by the legislative committee?

Mr. BRICKFIELD. Precisely; the latter a request by a committee of the Congress is necessary and we prepare a report which goes through the Bureau of the Budget and is in turn sent to the committee of Congress.

Mr. THOMAS. There is your big field of activity, is it not?

Mr. GLEASON. It is one of the most important ones, Mr. Chairman.

Mr. OSTERTAG. On that item of legislative history files maintained, I notice there is a sharp reduction estimated for 1964 as against fiscal year 1963. There is a reduction from 1,900 to 950. That, as I understand it, is based on the experience of first sessions as against second sessions.

Mr. BRICKFIELD. That is right.

Mr. OSTERTAG. You are in a first session this year.

Mr. BRICKFIELD. The Congress works on a calendar year, Mr. Ostertag. It is true that in the first session of a Congress there are more bills filed than the latter. Fiscal year 1964 will mainly take in the second session, it will take in the second session of the 88th Congress.

Mr. OSTERTAG. The bills pending or under consideration in the first session are also considered in the second session.

Mr. BRICKFIELD. That is right. We count them as they are introduced. We set up a file at that particular time.

Mr. OSTERTAG. How do you account for the reduction?

Mr. BRICKFIELD. There were less bills introduced in the second session than in the first session of Congress.

Mr. DRIVER. The first session bills would be in the 1963 column.

Mr. OSTERTAG. As of July 1 you are in the 1964 fiscal year.

Mr. BRICKFIELD. That is right.

Mr. OSTERTAG. Which is part of this year.

Mr. GLEASON. No, sir. The bills won't be introduced, so many of them, Mr. Ostertag, after July 1, as there are right now. We are still in fiscal year 1963.

Mr. DRIVER. We will dispose of the reports in fiscal year 1963.

Mr. THOMAS. I imagine when the administration submits a bill it was prepared by your office, was it not?

Mr. BRICKFIELD. When the administration submits a recommendation, sends up an executive communication, yes. That draft is usually prepared in our office and it is accompanied by an executive communication, which is the same thing as the report, which we prepare.

Mr. THOMAS. That is bound to take a lot of time, is it not? You have to be right on the button with something specific that the administration is advocating. It has to be carefully worked out.

Mr. EVINS. Mr. Brickfield, what legislation are you recommending other than these bills that the Members of Congress introduce?

Mr. GLEASON. I would like to answer that, Mr. Evins, if I may. I do not think it is the prerogative of the Chief Counsel to do that. The bills that we would recommend would be those that the present administration would have discussed with me and either report favorably or unfavorably upon them.

Mr. THOMAS. The Chief Counsel has to work hand in glove then with the Administrator and his staff?

Mr. GLEASON. That is right.

BOARD OF VETERANS' APPEALS

Mr. THOMAS. Gentlemen, we went into the Board of Veterans' Appeals yesterday. Did we go into this fully enough as it pertained to the Board of Veterans' Appeals? I believe we did. Unless there is some question on it, we will move on.

Mr. BOLAND. What is the grade for doctors who sit on the Veterans' Appeals Board?

Mr. GLEASON. Grade 15.

Mr. BOLAND. You have some good ones, let me say.

Mr. STANCIL. The chief member of each section, a legal man, is a grade 15. The medical member is a grade 15 and the third legal member is a grade 14. Then there are medical consultants who serve these sections of the Board and legal consultants from grade 12 to 14.

Mr. GLEASON. We are going to have to do something about that and raise them.

PERSONNEL DIVISION

Mr. THOMAS. Let us take up the Personnel Office, pages 5–24 and 5–25. Put those pages in the record.

(The pages referred to follow:)

GENERAL ADMINISTRATION

Assistant Administrator for Personnel, $1,068,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	99	100	100	
Personnel compensation	$812,938	$899,964	$946,326	+46,362
Personnel benefits	60,929	67,301	70,974	+3,673
Subtotal	873,867	967,265	1,017,300	+50,035
Public Law 87-793 pay increase		(58,400)	(80,400)	(+22,000)
Travel and transportation of persons	28,479	29,600	31,000	+1,400
Transportation of things	2,090	1,869	2,100	+231
Other services	6,204	8,000	9,000	+1,000
Supplies and materials	9,403	3,266	4,600	+1,334
Equipment	9,442	4,000	4,000	
Total cost	929,485	1,014,000	1,068,000	+54,000
Public Law 87-793 costs		(58,400)	(80,400)	(+22,000)

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 the fiscal year 1963 level although increased workload is anticipated as a result of Executive Order No. 10988. This order places new emphasis on relationships with employee organizations. We cannot foresee all of the problems that will arise in this area but it is already evident that the workload increase will be substantial. Areas contributing to this increase include: Implementation and maintenance of regulations; development of training materials and guidelines; Civil Service reporting requirements; increase in the number and complexity of appeals by organizations and by individual employees; and problems associated with denials, withdrawals, suspensions of agreements with organizations.

Mr. THOMAS. You have 100 people. Travel and transportation is $29,600 in 1963 and jumps up to $31,000 in 1964. Other services go from $8,000 to $9,000, supplies and materials from $3,266 up to $4,600.

Where are all your people located, Mr. Personnel Officer? There are a hundred this year, a hundred next year.

Mr. UNDERWOOD. They are located here in the central office.

OTHER OBJECT COSTS—PERSONNEL DIVISION

Mr. THOMAS. Why do your other objects go up? They go to about $4,000. What do you do with $2,100 in transportation of things?

Mr. UNDERWOOD. The estimate there, transportation of things, that has to do primarily with our estimate as far as household goods are concerned when we bring in field people to fill essential technician vacancies. We try to staff these top technical positions with people who are informed about the problems in the field, if and when we decide to fill vacancies.

We feel they are better informed.

Mr. THOMAS. That is transportation of things. What about your $31,000 for travel of personnel?

Mr. UNDERWOOD. In our $31,000, that is broken basically into three parts: $17,000 has to do roughly with the evaluation of the total personnel program of the Veterans' Administration. That would include elements like the review of classification and wage administration, our recruiting program at colleges and other recruitment activities, the net effects of our program.

Mr. THOMAS. You do not staff personnel at X hospital in Boston, New York, Los Angeles, or Chicago, do you?

Mr. UNDERWOOD. No; but we evaluate how our total personnel policies of the agency are working from the broad overview.

Mr. THOMAS. How many people do you have under your jurisdiction? You have jurisdiction just over the central office, around 5,000 people?

Mr. UNDERWOOD. No. I advise with the Administrator on all of the personnel management matters of the Veterans' Administration in all departments and then, of course, out of that——

Mr. THOMAS. In the field, too.

Mr. UNDERWOOD. Yes; throughout the country, and then of course 38 of those people run the central office personnel service for the central office itself like any other personnel office.

ACTIVITIES, PERSONNEL OFFICE

Mr. THOMAS. Break down the activities of your 100 people. What do they do?

Mr. UNDERWOOD. Thirty-eight run the central office as a station; 12 of them work on evaluations, reports, and statistics. That has to do with the evaluation of the total program; the accumulation of statistics for reports and research, and material dealing with manpower utilization; 18 of them have to do with work in recruitment and placement, employee relations, and appeals to the Administrator from the field.

Mr. THOMAS. Where are you reading that?

Mr. UNDERWOOD. I am just giving it to you. This is supplemental.

Mr. THOMAS. I have looked in my book. I do not see that good material.

Mr. UNDERWOOD. I am giving you material that is not in the book. I can read it from the book if you wish.

Mr. THOMAS. Sir?

Mr. UNDERWOOD. I can read it from the book. I can refer to the material in the book. I was trying to supplement what is in writing.

Mr. GLEASON. Pages 5–25 and 5–26 relate to this, sir.

Mr. THOMAS. I do not understand where it is. I do not find it in my book.

Go ahead.

Mr. UNDERWOOD. You asked me how we were using the 100 people.

Mr. THOMAS. Break down again now your 100 people. Thirty-eight of them run the central office as a station.

Mr. UNDERWOOD. That is right. The others, evaluation and reporting, are 12.

Mr. THOMAS. Is that part of the 38?

Mr. UNDERWOOD. No.

Mr. THOMAS. Evaluation and reports from where?

Mr. UNDERWOOD. From the central agency as a whole—throughout the country and outside the United States. In other words, that provides a lot of the statistics we have in here, and for other requests.

Mr. THOMAS. Go ahead.

WAGE BOARD AND CLASSIFICATION ACTIVITIES

Mr. UNDERWOOD. Classification and wage administration—that is classification of positions under the Classification Act, and evaluation of positions for about 37,000 people that are under the wage administration system.

Mr. THOMAS. What do you do about that?

Mr. UNDERWOOD. We establish basic agency policy and systems for administration of these programs, see that they are kept in alinement.

Mr. THOMAS. Do you set the wage?

Mr. UNDERWOOD. We administer the total program to see that it is in compliance.

Mr. THOMAS. Who sets the wage? Do you set it?

Mr. UNDERWOOD. No; the wages at individual stations are set up on the basis of the prevailing wage rate in the local community.

Mr. THOMAS. I am trying to get you to say that you can pinpoint the Department of Defense to do it for you. They do it for you, do they not?

Mr. UNDERWOOD. No.

Mr. THOMAS. They set the prevailing wage for the classification in the area and you come within that, do you not?

Mr. UNDERWOOD. No.

Mr. THOMAS. Who does?

Mr. UNDERWOOD. We, through our own wage program. We have three separate and distinct wage schedules and we do work in harmony with other agencies, such as GSA, that have similar wage schedules.

Mr. THOMAS. Don't you have one agency in the Government that really works out that schedule?

Mr. MONK. No, sir.

Mr. DRIVER. We ought to have.

Mr. GLEASON. That would be a good thing if you could do it, Mr. Chairman. Then everybody would be on the same basis. We won't have the problems that we run into now.

Mr. THOMAS. Do you not ultimately rely upon the Department of Defense?

Mr. MONK. Not very often. We do in an area, as Mr. Underwood said.

Mr. THOMAS. Let us go back. Here is the area of New York City and the New England States. Who is the largest employer up here? It is not the Veterans' Administration. It is the Department of Defense, is it not?

Mr. MONK. In the food service area we are the biggest and generally we make the wage surveys on foodworkers. In the maintenance area we may ride with the Army, the Air Force, or the Navy, maybe participate in the survey.

Mr. THOMAS. The predominating employer in the area really carries the flag?

Mr. GLEASON. It depends on the function performed, Mr. Chairman.

Mr. THOMAS. How does Mr. Underwood come in there?

Mr. MONK. He prescribes the system and criteria for determining the wage rates in an area.

Mr. THOMAS. For all of his wage board employees. How many do you have?

Mr. UNDERWOOD. 37,000.

Mr. THOMAS. How many people do you have assigned to that?

Mr. UNDERWOOD. On our staff we only have nine people in the Classification and Wage Service because we are administering and controlling the overall. When they conduct a wage survey at an individual station, the locality data are obtained by the local station and are sent in to the central office.

EMPLOYEES ENGAGED IN PERSONNEL WORK

Mr. TURNER. Your entire personnel is located in the Washington office?

Mr. UNDERWOOD. Under this 100 people we are talking about; yes.

Mr. THOMAS. How many do you have in your various installations out in the field? Do you have any jurisdiction over those?

Mr. UNDERWOOD. Through the departments. The departments are operational and administer the general policy.

Mr. THOMAS. How many people outside of the District of Columbia are engaged in personnel work?

Mr. MONK. 1,426.

Mr. THOMAS. Who has jurisdiction over those?

Mr. MONK. It depends.

Veterans' Benefits has part of them. They have 164; Medical has 1,223, and Insurance has 39.

CENTRAL OFFICE PERSONNEL STAFF

Mr. THOMAS. Mr. Underwood's office has no jurisdiction over them?

Mr. MONK. He has no direct line jurisdiction. He has the staff responsibility on the Administrator's staff for the total personnel program, policies, procedures, but as far as direct jurisdiction over these field people he has none.

Mr. THOMAS. What does he need with a hundred people then? It looks like it should be cut in two. He does no payroll work, he does nothing. That goes over to Administrative Services.

Mr. MONK. Thirty-eight of these people serve about 3,750 employees in the central office. All operating personnel matters for those employees are done in Mr. Underwood's shop.

Mr. THOMAS. What are those actions?

Mr. MONK. Recruitment, promotions, all the personnel actions—terminations, discipline, training, classification.

Mr. THOMAS. But the bookkeeping work is done by Administrative Services?

Mr. MONK. The bookkeeping work is done by Administrative Services; initial papers are prepared in Personnel.

Mr. THOMAS. Let us see the green sheets on this activity. There is 1 grade 17, 1 grade 16, 4 grade 15's, 1 grade 14, and 46 from 10 to 14.

Mr. GLEASON. Forty-seven from 3 to 9.

Mr. UNDERWOOD. I have it broken down for each individual grade if you would like, Mr. Chairman.

Mr. THOMAS. Your justification needs considerable strengthening for 100 people in view of the fact that you have about 1,500 people engaged in personnel work in the field.

Mr. GLEASON. A lot of this is a consolidation of those reports from the field, Mr. Chairman.

Mr. THOMAS (reading):

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 regulations.

Implementation and maintenance service reporting requirements, increase in the number and complexity of appeal for organization—

et cetera. You duplicate all that in the field.

Mr. GLEASON. Not quite, sir. If you will be good enough to read the second paragraph on 5–25 you will notice that there is an anticipated increase in the workload for this year.

Mr. THOMAS. That is what I was reading from.

Average employment is being held to the fiscal year 1963 level. Order 10988 places new emphasis on relationships with employee organizations. We cannot foresee all of the problems that will arise in this area but it is already evident that the workload increase will be substantial.

How?

Mr. UNDERWOOD. That has to do with employee organizations or unions. Since July 1 until December 31 we have had 124 different lodges or union organizations recognized throughout the VA. We could expect that by June 30 next year we will have a total of about 240 recognized.

Mr. THOMAS. They can fill your office altogether by that time. Next year they will run the show, won't they?

Mr. MONK. Mr. Chairman, we are the third largest employer in the Federal Government, 175,000, roughly, individuals on the payroll. Mr. Underwood has 62 people——

Mr. THOMAS. 175,000?

Mr. MONK. Roughly, individuals, full-time equivalent of 155,000.

Mr. THOMAS. You just handled that 20,000 very lightly, Dr. Monk.

Mr. MONK. Those are full-time individuals. Part-time individuals, as far as personnel administration is concerned, take as much as a full-time individual because he has to have the same kind of personnel action. Mr. Underwood has 62 people to provide the staff assistance, to set the policies, lay the procedures, evaluate the program, and ride herd on it for the Administrator.

VA AND CSC PERSONNEL WORK

Mr. THOMAS. What does the Civil Service Commission do?

Mr. MONK. They do some of the same thing, but we have to translate all of the Civil Service Commission regulations into our language and policy for the field operation.

Mr. GLEASON. We have to prepare it now.

Mr. THOMAS. Do you give your own examinations through this personnel office? Do you do your own placement or does the Civil Service Commission do it?

Mr. MONK. We do our own placement in the central office through this central office personnel service, which employs 38 people.

Mr. THOMAS. Do you have a board sitting over there with you from the Civil Service Commission?

Mr. GLEASON. No.

Mr. UNDERWOOD. In certain categories of personnel, no. In dietetics, psychologists, and in those fields where we have rating boards, we do our own rating. We develop qualification standards as to what the appropriate requirement should be for individuals for rating. We develop many of those in categories that are peculiar to our organization.

Mr. THOMAS. You mean you write standards and job descriptions?

Mr. UNDERWOOD. There are individual job descriptions for an individual. Actually, I was referring to the qualifications of individuals

on the one hand and then standard for grades and classification on the other. We set up criteria for those in categories that are peculiar to us. We also work with the Commission.

IN-GRADE PROMOTIONS

Mr. THOMAS. Is it your function to pass on these in-grade promotions each year that are set up in the new pay act?

Mr. UNDERWOOD. No. We do not handle individual actions. That is operational, which is handled at the operating level.

Mr. THOMAS. Where do you come in then?

Mr. UNDERWOOD. How it shall be done in the first place. In other words, what are the criteria? Are we going to have a lean or a liberal policy on granting high quality within grades or in meeting what is required to gain within grades? That has to do with one type of policy. I could name a number of things that we are working on now.

Mr. THOMAS. The supervisor says "Yes" or "No" to an in-grade promotion. Is that final or does your office have anything to do with it?

Mr. UNDERWOOD. At the very high levels, if it becomes a problem for the Administrator, we review it, study it, make a recommendation to him.

SUPERVISION

Mr. THOMAS. You have a lot of chiefs and you have a lot of Indians. Who handles the Indians?

Mr. UNDERWOOD. The personnel officers at the station and at the lower level. We do believe in a high degree of delegation of authority to the field in the field of supervision and administration. We feel that is important. If we would overcentralize administration in Washington, that is not good. We have only nine people, for example, in the administration of wage and classification for our total agency and that is a pretty small group. Yet we do have to develop a great deal of material for the Bureau of the Budget and others when they are talking about these new pay acts and things of that kind.

Mr. THOMAS. Are there further questions on this?

EMPLOYEE ORGANIZATIONS

Mr. EVINS. How many employee organizations are there within the VA itself?

Mr. UNDERWOOD. Employee organizations?

Mr. EVINS. That have been organized or where there are employee union organizations.

Mr. UNDERWOOD. At the moment we have 134 recognized lodges. That is made up of only about five different organizations. For example, the American Federation of Government Employees has about 80 recognized; the National Federation of Federal Employees has about 40, and then there is NAGE; a metal trades union, and a few small trade and craft unions that are organized, but not many. I would say 5 nationals representing 134 recognized lodges at the moment. We could expect to have about 240 lodges recognized by the end of the year.

Mr. THOMAS. Mr. Reporter, put pages 5–27, 28, 29, and 30 in the record.

(The pages follow:)

GENERAL ADMINISTRATION

Office of the Manager, Administrative Services, $4,690,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	584	573	565	−8
Personnel compensation	$3,005,290	$3,131,900	$3,217,500	+$85,600
Personnel benefits	227,012	248,500	252,800	+4,300
Subtotal	3,232,302	3,380,400	3,470,300	+89,900
Public Law 87-793 pay increase		(132,200)	(206,800)	(+74,600)
Travel and transportation of persons	5,409	9,200	11,100	+1,900
Transportation of things	32,034	39,300	39,000	−300
Rents, communications, and utilities	364,156	391,600	415,700	+24,100
Printing and reproduction	331,561	418,300	418,100	−200
Other services	159,100	224,000	150,800	−73,200
Supplies and materials	157,043	151,000	150,000	−1,000
Equipment	69,175	35,200	35,000	−200
Total cost	4,350,780	4,649,000	4,690,000	+41,000
Public Law 87-793 costs		(138,300)	(225,600)	(+87,300)

During fiscal year 1962 the central office operational elements of Management Services were separated from Management Services and relocated organizationally and renamed Office of the Manager, Administrative Services. The new organizational element has the immediate office of the Manager and six divisions: (*a*) Office Services, (*b*) Central Office Finance, (*c*) Publications, (*d*) Building and Supply, (*e*) Data Operations, and (*f*) Visual Aids. The many varied basic services for central office, as well as several VA-wide services are furnished by its employees. Day-to-day functions and activities provide for central office receipt, distribution, and dispatch of mail; messenger service; telephone and wire services; travel services; administration of a complete fiscal program; purchase, storage, and distribution of supplies; building maintenance and operation; and automatic data processing services. Some of the services furnished on a VA-wide basis are index, claims, and insurance locator files services; research service on records of former servicemen; planning, coordination, and execution of a visuals presentation program; and printing and reproduction services.

Details and justification for Publications Division are shown under consolidated supply activities.

Distribution of average employment

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Office of the Manager	8	9	9
Office Services Division	337	332	328
Finance Division	46	48	48
Building and Supply Division	53	54	54
Data Operations Division	120	110	106
Visual Aids Division	20	20	20
Total	584	573	565

The estimate proposes an average employment of 565 for fiscal year 1964. This is a decrease of 8 over fiscal year 1963 and 19 over fiscal year 1962. The planned level of manpower requirements is based on maximum utilization of employees within and between activities in administrative services and increased productivity and effectiveness.

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Personal services and benefits:				
Personnel compensation	$3,005,290	$3,131,900	$3,217,500	+$85,600
Personnel benefits	227,012	248,500	252,800	+4,300
Total	3,232,302	3,380,400	3,470,300	+89,900
The estimated increase in funds requested is due primarily to the Public Law 87-793 pay increase.				
Travel and transportation of persons:				
Employee travel	2,408	5,200	7,200	+2,000
Local travel	3,001	4,000	3,900	−100
Total	5,409	9,200	11,100	+1,900
Increase in employee travel is primarily to cover the cost of trips involving the study, for application to our operations, of new developments in electronic data processing systems. Increased demands for installing and dismantling exhibits and photographic coverage; necessary participation in various training courses also requires additional funds. Included in estimate for local travel are funds for purchase of D.C. Transit tokens for all central office.				
Transportation of things:				
Freight, express, and drayage	8,291	11,400	11,500	+100
Parcel post reimbursement	18,750	22,500	22,500	----------
Rental of trucks from GSA pools	4,993	5,000	5,000	----------
Shipment of household goods	----------	400	----------	−400
Total	32,034	39,300	39,000	−300
All miscellaneous shipping costs for Central Office (excluding Publications Division); parcel post reimbursements for Central Office and the Veterans' Benefits Office (excluding Publications Division) and costs of all trucks rented from the GSA motor pools for Central Office use are included in this estimate.				
Rents, communications and utilities:				
Communications	81,832	101,100	111,500	+10,400
Register mail reimbursements	39,391	44,700	58,600	+13,900
Data processing machine rentals	242,933	245,800	245,600	−200
Total	364,156	391,600	415,700	+24,100
The estimate provides for the cost of all telephone services for staff offices in Central Office and mailings by Central Office (excluding Publications Division) and the Veterans' Benefits Office. Increases provide for postage rate increases of $18,800 pursuant to Public Law 87-793; upgrading of telephone equipment and telephone moves.				
Printing and reproduction	331,561	418,300	418,100	−200
The funds requested are to cover estimated reimbursement to the Supply Fund for all printing and reproduction for all staff offices other than the Assistant Administrator for Construction.				
Other services:				
Repairs of furniture and equipment	2,545	5,300	5,100	−200
Maintenance and repair of buildings	90,332	173,500	100,700	−72,800
Miscellaneous contractual services	66,233	45,200	45,000	−200
Total	159,110	224,000	150,800	−73,200

Mr. GLEASON. I wanted to point out to Mr. Evins, with all of these unions and keeping in mind we are the third largest employer in the U.S. Government, this poses a great problem for Mr. Underwood.

Mr. THOMAS. He is not by himself.

You have 584 people for 1962, 573 in 1963, and 565 in 1964, a reduction of 8 this year. We are referring to administrative services (reading):

During fiscal year 1962 the Central Office operational elements of Management Services were separated from Management Services and relocated organizationally and renamed Office of the Manager, Administrative Services. The new organization element has the immediate office of the Manager and six divisions: (a) Office Services, (b) Central Office Finance, (c) Publications, (d) Building and Supply, (e) Data Operations, and (f) Visual Aids. The many varied basic services for Central Office, as well as several VA-wide services are furnished by its employees. Day-to-day functions and activities provide for Central Office receipt, distribution and dispatch of mail; messenger service; telephone and wire services; travel service, storage and distribution of supplies.

We will call it good old housekeeping.

Mr. MONK. Housekeeping is right.

Mr. THOMAS. Your activities are mainly here in the District of Columbia?

Mr. MONK. Entirely, sir.

Mr. THOMAS. The Office Manager has 8, 9 and 9; Office Services Division has 337, 332, 328; Finance Division, 46, 48 and 48; Building and Supply Division, 53, 54 and 54; Data Operations Division, 120, 110 and 106; Visual Aid Division, 20, 20 and 20.

The estimate proposes an average employment of 565 for fiscal year 1964. What do these various activities do?

MAINTENANCE OF INDEX AND LOCATOR FILE

Mr. GORMAN. Some of the services we perform relate to the maintenance of the index and locator file. That file services about all of our 169 hospitals and 67 regional offices and 93 clinics and other installations writing in for verification or identification of anybody who may have been in service or who thinks he might have been in service.

Mr. THOMAS. You keep the master file, then?

Mr. GORMAN. Master file and locator; yes, sir.

Mr. THOMAS. What goes in the master file?

Mr. GORMAN. We have the——

Mr. THOMAS. Do you show benefits he has been given?

Mr. GORMAN. No, sir.

Mr. THOMAS. Does it show the service?

Mr. GORMAN. Yes. It also shows his full name, date of birth, date of enlistment, date of discharge, and sometimes the type of application on which we assigned a claim number or an insurance number.

Mr. THOMAS. Other than that, what happens after he gets out of the service and he is not on there?

Mr. GORMAN. We add the claim number which we assign.

Mr. THOMAS. How many people are there?

Mr. GORMAN. 172 people in the index and locator file.

Mr. THOMAS. How many records do you maintain? What was the figure?

Mr. GORMAN. Twenty-nine million index cards, 22 million locator cards.

Mr. THOMAS. Who does it cover? What does 29 million cover?

Mr. GORMAN. The 29 million covers the people who wore a uniform and who filed for some benefit from VA including insurance. It is the centralized master index file for our agency.

Mr. THOMAS. Indian wars on down?

Mr. GORMAN. Yes.

Mr. THOMAS. You do not have the Spanish-American?

Mr. GORMAN. Yes, we do. We also maintain a special register of "C" numbers assigned.

Mr. THOMAS. But your 29 million——

Mr. GORMAN. They represent all wars.

Mr. THOMAS. What does your special register cover?

Mr. GORMAN. This is a numerical listing of 22 million claim numbers assigned.

Mr. THOMAS. The Spanish-American, Indian war?

Mr. GORMAN. Civil War, Revolutionary War, yes, sir, as well as peacetime people.

Mr. THOMAS. Go ahead, sir, please.

Mr. GORMAN. We have this activity in our index and locator section.

Mr. THOMAS. That is 172 people.

Mr. GORMAN. 172 people in our index and locator file.

Mr. DRIVER. He has 22 million cards showing the location of case folders all over the country, too, Mr. Thomas.

Mr. GORMAN. Actually we play a vital part in the operation of all the hospitals and regional offices because when they get some correspondence in Houston for instance, which they cannot identify, they will send that in to our central office index operation for identification.

Mr. THOMAS. What is the purpose of them identifying it?

Mr. GORMAN. So we can get location of records and service anybody who is entitled.

Mr. THOMAS. This is the only way?

Mr. GORMAN. Yes, sir.

Mr. THOMAS. If they do not have any prior record, then they have to come here to get it?

Mr. GORMAN. That is right, sir. If a regional office can't identify a piece of correspondence, they send it in to us.

Mr. THOMAS. Go ahead.

Mr. GORMAN. The same thing is true in hospitals. If they have an application in a hospital or applicant for hospitalization and he has no verification of service on him the hospital goes through the regional office to us for identification.

Mr. THOMAS. That is better than a third of your total employment.

Mr. GORMAN. That is right, sir.

FINANCE DIVISION

Mr. THOMAS. You have a Finance Division.

Mr. GORMAN. That provides basically for the finance operations locally, not only for our 3,750 people in central office and payroll functions for about 793 people in VBO. We also provide payroll functions for the Office of Emergnecy Planning, about 500 accounts. We actively maintain about 4,900 pay accounts.

Mr. THOMAS. OEP?

Mr. GORMAN. Office of Emergency Planning, about 500.

Mr. THOMAS. Do you do the bookkeeping for them?

Mr. GORMAN. On a reimbursable basis. There is an agreement which provides for the reimbursement of up to $10,000 for work we do for OEP.

Mr. THOMAS. Your Finance Division then really writes the checks?

Mr. GORMAN. Treasury writes them.

Mr. THOMAS. I know Treasury actually does the work, but you prepare the rolls and everything else?

Mr. GORMAN. Yes, sir.

Mr. MONK. And keep the accounts.

Mr. THOMAS. For 5,000 people?

Mr. GORMAN. 4,900.

Mr. THOMAS. How many people do that?

Mr. GORMAN. Thirty-eight people. We have about 10 people in the payroll function.

Mr. THOMAS. You have no jurisdiction over the installations in the field in this regard?

Mr. GORMAN. We have no jurisdiction over them in finance but we work daily with them in connection with processing of all requests for identification and location of folders.

Mr. THOMAS. What do you mean work daily with them?

Mr. GORMAN. We regularly get about 5,000 wires a day from regional offices and hospitals, many asking for identifications and locations of claims folders. Many of these relate to entitlement to hospitalization.

Mr. THOMAS. That takes care of your records crowd of 178. They do not have anything to do with financing.

Mr. MONK. In the Finance Division they serve only the central office, Veterans' Benefits Office. There is no relationship at all with the field.

Mr. THOMAS. Do you agree with that, Judge?

Mr. GORMAN. Yes, sir.

Mr. EVINS. I think he does a pretty good job keeping up with all the veterans, Mr. Chairman.

BUILDING AND SUPPLY ACTIVITIES

Mr. THOMAS. Building and Supply Division, what do you do there?

Mr. GORMAN. We maintain building maintenance and supply activities for the VA central office, located on Vermont Avenue, Washington. We provide housekeeping activities for Munitions Building which houses the Veterans' Benefits Office as well as certain elements of Central Office. We provide also for our printing and reproduction plant at Shirlington.

Mr. THOMAS. What does "building" have to do with it?

Mr. GORMAN. We're responsible for building maintenance. We deal with GSA. Our buildings are GSA-controlled and we work closely with them on space moves, space alterations.

Mr. MONK. We have a small labor force.

Mr. THOMAS. GSA picks up the tab for your alterations, do they not?

Mr. MONK. Mostly.

Mr. GLEASON. Not all the time, mostly.

Mr. GORMAN. To some extent we provide minor alterations. GSA takes care of the major alterations.

Mr. THOMAS. What covers your supply end of it?

Mr. GORMAN. Supply is about 26 people. That is supply activities for central office alone including activities of the area that we mentioned, 3,600 people, the Shirlington area as well as Munitions and central office.

Mr. THOMAS. Papers, pencils, desks, et cetera?

Mr. GORMAN. Yes, sir.

We have an automatic issue program. We provide papers, pencils, desks, tables for staff offices in central office.

Mr. THOMAS. Are you in charge of the stockroom?

Mr. GORMAN. Yes, sir. Our inventory of office equipment is about $3 million.

Mr. THOMAS. Where do you get your stock?

Mr. GORMAN. Principally through GSA.

Mr. THOMAS. You are bound to have a lot of paperwork, then.

Mr. GORMAN. We do have substantial paperwork.

Mr. THOMAS. Do you pay them promptly?

Mr. GORMAN. Always.

Mr. THOMAS. Did they not say the VA was 2 months late?

Mr. EVINS. Some of them. They did not specify which ones.

DATA OPERATIONS

Mr. THOMAS. Tell us about your data operations.

Mr. GORMAN. Data operations is down from 120 to 106. That is due to the conversion of Veterans' Benefits Office compensation and pension accounts. We have been providing data operations service to Veterans' Benefits Office, which is a separate field office, as you know.

Mr. THOMAS. To whom?

Mr. GORMAN. The local regional office which we call the Veterans' Benefits, over on Constitution Avenue.

Mr. THOMAS. What do you provide for them?

Mr. GORMAN. All machine operations, loan guarantee accounting, personnel processing.

Mr. THOMAS. Does this get into publications?

Mr. GORMAN. No. Machine operations. They are electric accounting machines. We get into publications when we mention mineograph work. That is another Division under us, the Publications Division.

Mr. GLEASON. Mostly punchcards, Mr. Chairman.

Mr. THOMAS. You mean to supply the material for your automatic data processing. I do not understand.

Mr. MONK. In this office, this Data Operations Division, we assemble all of the statistical reports, consolidate them, put out the summaries on all of the operating elements in the central office.

Mr. THOMAS. What is the nature of the data?

Mr. MONK. Everything in this book, for example. All of our statistical reports that go in the annual report or monthly statistical reports, accounting reports are included.

Mr. THOMAS. For all of the installation?

Mr. MONK. Yes, sir.

Mr. GORMAN. We are talking about IBM installations.

Mr. MONK. Punchcard equipment. The reports come in.

Mr. THOMAS. What is the nature of some of the reports that you have to tabulate?

Mr. GORMAN. Statistical reports, the number of living veterans, et cetera. We summarize any and all kinds of statistical information which any office wants.

We summarize and tabulate for the concerned staffs and departments. Specifically we get into the summarization of compensation payments.

Mr. THOMAS. Half of the data in this justification is prepared in his office?

Mr. GLEASON. That is correct, sir. I would like to point out to you that here in our report, that the members of this committee have already received, these are all of the tables. Here is all of the work going all the way back through two-thirds of this book. This is what Mr. Gorman assembles for us.

Mr. THOMAS. How many people do you have doing this data work?

Mr. GORMAN. 106 people, sir.

Mr. THOMAS. When you once get it assembled, it is a question of maintaining it from year to year, is it not?

Mr. GLEASON. Yes, sir.

Mr. DRIVER. Month to month, some of it quarterly.

Mr. THOMAS. How long has this Division been in operation?

Mr. DRIVER. As a consolidated division, about 4 or 5 years; but there has always been this function here performed by several elements, Mr. Chairman. This Division represents a consolidation of it all.

Mr. THOMAS. What has been the employment in this Division for the last 10 years?

Mr. GORMAN. I do not have the figures going back.

Mr. GLEASON. Each year I am sure, Mr. Chairman, if we were to go back we would find that 10 years ago it was almost twice as high as it is today because of the IBM equipment, et cetera.

Mr. DRIVER. We have faster equipment now, too.

Mr. THOMAS. What is the nature of the equipment?

Mr. DRIVER. One small computer and the rest is typical IBM equipment, with one computer. We have the electrical accounting machines.

VISUAL AIDS DIVISION

Mr. THOMAS. What about your Visual Aids Division? How many employees do you have?

Mr. GORMAN. We have 20 people in the Visual Aids Division, sir.

Mr. THOMAS. What do they do?

Mr. GORMAN. Basically they provide presentations that are made throughout the country, like the exhibits that we have at National and State service organization conferences and professional and scientific groups. They provide art work for exhibit presentations similar to that in our Administrators Annual Report here. They make movies. We made a movie for the Department of Veterans' Benefits 2 years ago in which we outlined the functions of ADP for use as a training film for all 67 regional office personnel.

Mr. EVINS. Do you have any films available for loan purposes?

Mr. GORMAN. Yes, sir. We have a film library. They are available at any time for use by veterans organizations, medical groups, and for initial agency training.

Mr. THOMAS. What does this Division cost you over and above your salary cost?

Mr. GORMAN. The Division of Visual Aids would be in the neighborhood of—I do not have that figure for you, sir.

Mr. THOMAS. What is a horseback opinion of it?

Mr. GORMAN. Sir, I would say it costs $50,000, plus salaries.

Mr. GLEASON. I would think it would be more than that.

Mr. DRIVER. If it is in a year when you make a movie it could be higher.

Mr. GORMAN. It could be higher. The DVB movie cost about $12,000.

Mr. THOMAS. Mr. Controller, do you have that figure?

Mr. HANSMAN. My guess is it is more than that.

Mr. GLEASON. I am using the average of $50,000.

Mr. THOMAS. These figures do not tell the detail by any means. You use outside talent?

Mr. MONK. We have some contracts, yes, sir. Then there would be supplies. I would say in the neighborhood of $60,000. We would be glad to supply that figure for the record.

Mr. THOMAS. Please do that.

(The information supplied follows:)

Visual Aids Division, fiscal year 1964

Average employment	20
Personnel service and benefits	$165,975
Other objects	63,864
Total cost	229,839

Mr. THOMAS. What is their civil service rating?

Mr. GORMAN. The breakdown of the grade structure, sir, the chief is a 14, two 13's, and then illustrators and artists and clerical ranging from grade 3 to 11.

Mr. MONK. Salary costs run in the neighborhood of around $160,000 a year for these 20 people.

Mr. THOMAS. Do you send something to each one of your installations every year?

Mr. GORMAN. We make available to all installations a film catalog so that they can have access to any of the films in our library.

NUMBER OF FILMS

Mr. THOMAS. How many films did you make in the past year and how many do you intend to make in 1964?

Mr. GORMAN. We are working on two films, one on rehabilitation of blinded veterans and one on the VA Supply Service for in-service orientation and training.

Mr. DRIVER. You made one last year?

Mr. GORMAN. Yes, sir.

Mr. THOMAS. What did it cost?

Mr. GORMAN. $12,000, sir. We have our own motion picture man. He processes them through the Department of Agriculture motion

picture facility. He uses facilities of the laboratories in the Department of Agriculture.

Mr. THOMAS. You make it right in your own shop, then?

Mr. GORMAN. Between VA and Agriculture; yes, sir.

Mr. THOMAS. We will recess until 1 o'clock.

OFFICE OF CONTROLLER

Mr. THOMAS. Let the committee come to order.

Mr. Reporter, put 5–32, 5–33, and 5–34 in the record at this point. (The pages referred to follow:)

GENERAL ADMINISTRATION

Controller, $1,064,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	74	75	75	
Personnel compensation	$674,160	$736,800	$804,700	+$67,900
Personnel benefits	49,693	54,600	58,100	+3,500
Subtotal	723,853	791,400	862,800	+71,400
Public Law 87-793 pay increase		(40,500)	(78,000)	(+37,500)
Travel and transportation of persons	7,309	14,900	16,400	+1,500
Transportation of things		1,600	1,600	
Other services	21,530	163,400	178,600	+15,200
Supplies and materials	3,167	1,900	1,800	−100
Equipment	3,587	2,800	2,800	
Total cost	759,446	976,000	1,064,000	+88,000
Public Law 87-793 costs		(40,500)	(78,000)	(+37,500)

The Controller is the top fiscal 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 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 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Comptroller's immediate office	6	4	4
Budget Service	26	27	27
Financial Management Service	23	24	24
Reports Management Service	12	12	12
Research Statistics Service	7	8	8
Total	74	75	75

The functions of these services have been emphasized and realined during the past year to meet increasing controllership demands.

In budget, the formulation and execution process is receiving added emphasis because of increasing requirements from our loan guarantee program, our conversions to automatic data processing, and from our funding and review requirements in the VA construction program.

In Financial Management Service, requirements are increasing because of the application of automatic data processing systems in accounting, costing, and related controller areas; and the continuing emphasis on the achievement of economy and effectiveness, agencywide, through improvements in financial management.

Reports Management is giving new and added attention to 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.

Mr. THOMAS. The Controller is $1,064,000 for 75 employees. You have an increase of $1,500 in travel. Other services show a $15,200 increase, making a total of $178,600.

(Reading):

The Controller is the top fiscal officer of the agency. He is responsible to the Administrator for 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 staffs for and publications on the Veterans' Administration programs—

are you not duplicating a little bit over here?

The Controller's office includes a budget service, financial management, reports management service, and research statistics in addition to his immediate office. These services operate in their functional areas, VA-wide, to assist the Controller in discharging his responsibilities.

You have four people in your immediate office. Budget service is 27. Financial Management Service is 24. Reports Management Service is 12, and the research statistics, 8.

Regarding your eight research people, are you overlapping the administrative services?

Mr. HANSMAN. No, sir; we do not think so.

Mr. THOMAS. He keeps the master files?

Mr. HANSMAN. Yes, sir.

Mr. THOMAS. What else does he do?

Mr. HANSMAN. He operates the administrator's chartroom——

Mr. THOMAS. He does the statistical work, he compiles most of the figures submitted for the budget. The number of veterans in all classifications?

Mr. HANSMAN. The actual machine processing of them, sir. It is the design of the reporting system and the design of the statistical studies. That is done either in my shop or in cooperation with the statistical people in the several departments.

MANAGEMENT SERVICES

Mr. THOMAS. What is Supply Management Service? What do they do? You have 36 people shown there for next year.

Mr. MONK. You are in the section on the Assistant Administrator for Management Service?

Mr. THOMAS. Yes.

Mr. MONK. This is the merchant prince's shop.

Mr. THOMAS. Excuse me, Mr. Controller. Put 5–37, 38 and 39 in the record at this point.

(The pages referred to follow:)

GENERAL ADMINISTRATION

Assistant Administrator for Management Services, $2,485,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	106	120	120	
Personnel compensation	$948,218	$1,170,152	$1,256,600	+$86,448
Personnel benefits	70,615	90,013	93,900	+3,887
Subtotal	1,018,833	1,260,165	1,350,500	+90,335
Public Law 87-793 pay increase		(53,000)	(116,600)	(+63,600)
Travel and transportation of persons	35,229	65,680	68,200	+2,520
Transportation of things	4,481	6,821	3,900	−2,921
Rents, communications, and utilities	741,217	963,515	1,036,100	+72,585
Other services	3,816	10,024	19,800	+9,776
Supplies and materials	3,691	3,338	3,500	+162
Equipment	5,653	4,457	3,000	−1,457
Total cost	1,812,920	2,314,000	2,485,000	+171,000
Public Law 87-793 costs		(53,000)	(116,600)	(+63,600)

The Assistant Administrator for Management Services advises and assists the Administrator in Management Services policy matters agencywide. These services include agency manpower utilization, purchasing and supply, data processing systems, telecommunications, paperwork management, work analysis and improvement, mechanization of operations, civil defense, and disaster relief.

Develops agencywide policies, objectives, and guidelines in the above areas designed to improve the agency's performance in discharging its responsibilities wth a maximum of economy.

Distribution of average employment

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Office of Assistant Administrator	8	9	9
Supply Management Service	35	37	36
Management Analysis Service	38	37	37
Systems Engineering Service	25	29	29
Manpower Utilization Service		8	9
Total	106	120	120

The increase in average employment in 1963 and 1964 over 1962 is primarily attributable to (1) increased staff responsibility for improving manpower controls and utilization, and (2) additional workload requirements placed upon VA-wide communication system in connection with automatic data processing.

Supply Management Service details and justification are shown under Consolidated Supply Activities, volume 1, section 6.

Management Analysis Service formulates and recommends general policies and plans of VA-wide application for the management of paperwork from creation to final disposition, work analysis and improvement and mechanization of operations.

Systems Engineering Service has staff responsibility for the provision of technical leadership and services, VA-wide, pertaining to data processing and communications systems, including consultant, advisory, and engineering assistance.

Manpower Utilization Service has staff responsibility for improvement of VA-wide management at all levels through the best utilization of manpower and

application of progressive techniques in management standards and controls; quality standards and controls; production standards and controls; evaluation standards and controls; work measurement and productivity measurement; and manpower planning and forecasting.

OTHER OBJECTS—MANAGEMENT SERVICES

Mr. THOMAS. Employment has 120 for 1963 and 120 for 1964.

Travel and transportation goes up from $65,680 to $68,200. It goes up $2,520. Rents and utilities, $72,585 increase, giving a total of $1,036,100. Other services go up in round figures $10,000. Supplies and materials go up a small amount.

Mr. Cook, how long have you been with the agency?

Mr. COOK. The same time as Mr. O'Neil. Seventeen years.

Mr. THOMAS. This is a good long time. You ought to know the business from the top to the bottom.

Average employment, 120. Where are these people located?

Mr. MONK. These people are all located in Washington.

Mr. THOMAS. How about your rents and utilities? Why did this go up $72,500? What about your travel? It is up $2,500.

(Reading):

The increase is added field work that will be required in connection with data processing and transmission. This involves technical supervision over modernization of communications systems.

Mr. MONK. We have an extensive communications systems in the Veterans' Administration. We ride the Army network to the extent that we can but even so we have our own net control stations.

Mr. THOMAS. You don't work with General Services Administration?

Mr. MONK. We are working with General Services but they as yet have not developed a civilian communications system.

Mr. THOMAS. How many people do you have in travel status for $67.500, for the year 1964?

Mr. MONK. Where is that figure, Mr. Chairman?

Mr. THOMAS. It is on page 5–39 under Employee Travel.

Mr. MONK. There are 120 people in the division. They do not all travel. There would be 40 of them who are periodically—not continuously—making field trips.

MANAGEMENT SERVICES ACTIVITIES

Mr. THOMAS (reading):

The Assistant Administrator for Management Services advises and assists the Administrator in Management Services policy matters agencywide. These services include agency manpower utilization, purchasing and supply, data processing systems, telecommunications, paperwork management, work analysis and improvement, mechanization of operations, civil defense and disaster relief.

He overlaps everybody's jurisdiction. I thought he was a merchant prince. Now he has Civil Defense and Disaster Relief, communications, and paperwork management.

Mr. MONK. On page 5–38, Supply Management Service is Mr. Cook's service, which is 36 people of the 120.

Mr. THOMAS. Management Analysis Service, 37. What do they do?

Mr. MONK. These are people working on paperwork management, work measurement, mechanization in our hospitals.

Mr. THOMAS. When you say work on it, what do you mean? What do they do? Systems Engineering Service, 29.

Mr. MONK. These are the people who provide the staff guidance and assistance in the data processing and in the mechanization of the hospital conveyor systems and also in the communications service.

Mr. THOMAS. Where are the green sheets on these people? What is their classification? Are they engineers or what?

Mr. MONK. No, sir; they are strictly management people.

Mr. THOMAS. Where have they been heretofore?

Mr. MONK. They have been in this service. We did have, as I said yesterday, the housekeeping in this activity, which we split out and we will put the data processing in the new department that the Administrator mentioned yesterday.

Mr. THOMAS. This looks like sort of a catch-all tied to the merchant prince.

Mr. GLEASON. The merchant price was a part of this, Mr. Chairman.

Mr. THOMAS. He was a big part of it, wasn't he?

Mr. GLEASON. He was a good part of it.

Mr. THOMAS. The biggest part?

Mr. MONK. No. The Supply Management Service has been about this strength, 36 people.

Mr. THOMAS. What do these management analysis people do? Where are the green sheets on them?

Mr. MONK. We will have to go back to chart 1–1.

Mr. THOMAS. You have 2 16's, 5 15's, 78 GS–10 to 14, and 34 others but that is the Management Services total.

Mr. MONK. These people provide the staff guidance and assistance on paperwork management, work improvement, work analysis.

PAPERWORK MANAGEMENT

Mr. THOMAS. What do they do in paperwork improvement?

Mr. GLEASON. They eliminate a heck of a lot of forms and get the information correctly to us.

Mr. THOMAS. Do they work with the Archives?

Mr. MONK. They work very closely with the Archives.

Mr. THOMAS. What do they do, do they clean out these records or what? Do they put them in your warehouses?

Mr. MONK. They provide the way to get them out.

Mr. THOMAS. How do they do it?

(Reading):

Supply Management Service details and justifications are shown under consolidated supply activities, volume 1, section 6. Management Analysis Service formulates and recommends general policies and plans of VA-wide application for management of paperwork, from creation to final disposition. Systems Engineering Service has staff responsibility for the provision of technical leadership.

I thought that center was out in Chicago.

Mr. MONK. The computing center is out there.

Mr. THOMAS. You mean the top echelon is here and the work is done out there?

Mr. MONK. That is right.

Mr. GLEASON. Mr. Chairman, may I enter into the record a statement we have in our annual report?

Mr. THOMAS. Anything that will strengthen this justification.

Mr. GLEASON. On paperwork management it says:

Administration depends heavily on paperwork management. Systems, analysis, training, guidelines—these and other tools all apply their proper role in the tireless search for improvement. The Veterans' Administration efforts have been very successful in this area as evidenced by the following statement made on May 9, 1962, in a letter from the Assistant Archivist of the United States for the records management.

Mr. THOMAS. Do you mean you couldn't get a letter from Dr. Grover?

Mr. DRIVER. He was away at the time.

Mr. GLEASON (reading):

The Veterans' Administration has one of the best paperwork programs in the Federal Government * * *.

Mr. BOLAND. He says that about all agencies.

Mr. JONAS. Will the Chairman yield?

Mr. THOMAS. Yes, sir.

AGENCY EMPLOYMENT LEVELS

Mr. JONAS. All of these activities that you justify with such fervor and eloquence here before the committee as being calculated to bring about more efficient operations and conserve manpower, we bow to that because we are interested in it, but how do you reconcile this with the fact that your total employment has gone up every year since 1961?

Mr. GLEASON. It has gone down, I think——

Mr. JONAS. When?

Mr. GLEASON. In the last 2 years, as I mentioned in my statement yesterday.

Mr. JONAS. In 1961 you had 151,843. It went up the next year to 153,508. It went up in 1963 to 154,021, and now you want 154,060 for next year.

Mr. GLEASON. Mr. Jonas, if I might clarify it, sir, the employment has gone down as far as administration is concerned. When it comes to hospitalization, the employment has gone up.

Mr. JONAS. Don't these people work in the medical program too?

Mr. GLEASON. The Systems Engineering Service is going to formulate some programs so that we can use our data management in conjunction with hospitals.

Mr. DRIVER. The increase is in direct patient care, Mr. Jonas. In the areas of administration they have gone down.

Mr. GLEASON. All others have gone down.

Mr. JONAS. Your total has gone up. Am I correct in that?

Mr. DRIVER. Yes, sir.

Mr. GLEASON. Yes, sir; but this is strictly in hospital patient care.

MANPOWER UTILIZATION SERVICE

Mr. JONAS. You opened up a brandnew service here in 1963 and put on eight people and you want nine in it in 1964 and you didn't have anybody in 1962—Manpower Utilization Service—what is that, a new operation?

Mr. GLEASON. Not exactly, Mr. Jonas, no.

Mr. JONAS. Well, you show zero employees in it in 1962 and then eight in 1963.

Mr. DRIVER. These functions have been carried on in several places in the agency and this was a consolidation into one. The total number of people available did not increase. We pooled this effort, though, to get a little better result in terms of cutting down on numbers of people required.

Mr. GLEASON. Just like next year, Mr. Jonas, you will see zero by comparison in some of our other consolidations. The one that I announced just last Wednesday. The consolidation now into a data management department. So from the previous year, you won't see any.

MANAGEMENT ANALYSIS

Mr. THOMAS. Mr. Jonas, here is what troubles me: This activity that Dr. Grover's assistant is bragging on, the printing and binding goes up every year and pencils and paper go up every year, and ink and stationery, so where is the saving?

Give us an example of what they do.

Mr. GLEASON. I think the best explanation for management analysis, Mr. Chairman, is the second paragraph on the bottom on pages 5–38.

Mr. THOMAS. I have read that already.

(Reading):

> Management Analysis Service formulates and recommends general policies and plans of VA-wide application for the management of paperwork from creation to final disposition, work analysis, and improvement and mechanization of operations.

Everything is going up every year. It looks to me like the way to get these down is to eliminate these experts.

Mr. DRIVER. We retired 40,000 cubic feet of records last year out of active folders, removed them from space costing a lot of money and made available filing equipment they were housed in and this is one of the direct things the Assistant Archivist is referring to.

Mr. THOMAS. Dr. Grover takes credit for that, doesn't he?

Mr. DRIVER. He certainly gives encouragement and direction in an overall Government way, but I think you will find the degree to which they implement the archivist program varies from agency to agency.

Mr. THOMAS. How many people have you doing that kind of work, 37?

Mr. DRIVER. Thirty-seven people concerned with forms design, records management disposal programs which we group under the general heading of "Paperwork Management."

Let's say Congress passes a new law as it does every year it seems in the veterans programs. We had 31 last year. In order to implement any of these pieces of legislation we have to have at least one form and the standardization of this form putting it in the most useful condition, making it so that it is best readable to the claimant so that we get the best mileage out of it, so that it is a small as possible, comes under the general programs administered by this office.

Mr. THOMAS. All the 120 people in Management Services are domiciled here in the District?

Mr. DRIVER. Yes, sir.

Mr. THOMAS. Do you have a counterpart to it in each of your installations in the field?

Mr. DRIVER. No, sir.

Mr. THOMAS. So the people up here say: "Make an original and six copies" and it goes out to every installation; is that right?

Mr. DRIVER. Usually the forms are designed here and the same one is used by each office. They do not have different forms.

Mr. THOMAS. Does it take this many people to do that?

Mr. DRIVER. In many respects I would think Mr. Glover would hope we had 74 and would retire 80,000 cubic feet instead of 40,000.

Mr. THOMAS. Who heads this section?

Mr. MONK. Mr. Schmoll.

Mr. THOMAS. Is he here?

Mr. MONK. He is home sick today, Mr. Chairman.

Mr. THOMAS. You didn't do too good a job here in explaining this. (Reading):

The increase in average employment in 1963 and 1964 over 1962 is primarily attributable to (1) increased staff responsibility for improving manpower controls and utilization, and (2) additional workload requirements placed upon VA-wide communications system in connection with automatic data processing.

COMMUNICATIONS SYSTEM

What is the additional requirement placed upon the communications system?

Mr. MONK. It is the transmission of data from the field stations to the computer center.

Mr. THOMAS. How do you transmit it?

Mr. MONK. We do it in a variety of ways. We do some by teletype, we do some by eletronic devices called digitronics where we transmit from Denever to Philadephia, St. Paul to Philadelphia and back.

Mr. THOMAS. Is it on telephone lines?

Mr. MONK. It is on telephone lines; yes, sir. Part of it is on direct line, part of it is on shortwave.

Mr. GLEASON. We cannot use the digitronics though on the Army network.

Mr. MONK. We cannot send data over the Army network. They won't permit it.

Mr. THOMAS. Are these engineers?

Mr. MONK. Communications specialists; yes, sir. They are not professional engineers but they are engineers in the sense of communications engineering.

Mr. THOMAS. Could two or three of these activities in here be cut out?

Mr. GLEASON. Well, we do not think they would be cut down, Mr. Chairman——

WORK MEASUREMENTS AND WORK STANDARDS

Mr. THOMAS. You have a manpower utilization service. What about the Bureau of Personnel over here? Is that not their function?

Mr. DRIVER. This is in work standards, work measurement and that sort of thing. The personnel system does not specify work measurement requirements.

Mr. THOMAS. Do you say each man is supposed to do so much work a day or what?

Mr. DRIVER. In a general sense that is the idea, although with the different skills represented you have to have more precise standards to fit the particular job.

One of the most technical areas in which we have work standards is the Board of Veterans Appeals which has spent a considerable amount of time coming up with standards appropriate to this type of activity. For matters of justification and development.

Mr. THOMAS. How about the field of compensation and pensions?

Mr. DRIVER. We have separate standards for them, we have separate ones where the loan guaranty program and the education program——

Mr. THOMAS. What are the standards for compensation and pensions?

Mr. FARMER. I can give you the exact number of minutes and hours that we allow on an average for each type of claim. For example, an original disability claim is permitted on an average basis 3.4 hours. This is applied to the numbers which are adjudicated to determine how effectively an individual office is operating.

Now, those standards were created partly in collaboration with the program, C. & P., and partly with this organization we are speaking of now, as well as based on field testing where we took samples at seven stations last year. And we have had this program for a number of years. Last year we validated our findings. I can give you other examples of the man-hours allowed for each.

Mr. THOMAS. Under your work standards, suppose there is something that has been decided in 3½ hours that can be decided in 15 or 20 minutes? What happens?

Mr. GLEASON. There are many which take more than 3 hours, Mr. Chairman.

Mr. THOMAS. Then what does your work standard mean when you get through? It means nothing. If a man puts in a full honest 8 hours a day work, that ought to be the standard. How can you sit down and say you are going to give so many minutes to a certain case when you have never heard of the case and haven't the slightest idea what is involved?

Mr. GLEASON. We have to have some type of criteria in order to determine whether the man is performing his function properly.

Mr. DRIVER. And how many people we need to ask for in order to carry out the workload. This is a program with about 4,000 people in it.

Mr. THOMAS. Every month, every 2 weeks, or every night you know how many cases have been disposed of.

Mr. DRIVER. But we have to assign some element of time measurement to these cases in order to know whether we need 1 person, 10 people, or a thousand. And our experience over several years——

Mr. THOMAS. What is a beter timetable or a better guide than actual work performed?

Mr. DRIVER. We do have cases where one man is sitting beside another with exactly the same number of years experience in a professional field, such as the law, for example. One man does twice as many cases that are just as difficult as the man next to him.

Mr. THOMAS. What do you do with the slow worker?

Mr. DRIVER. We try to get him to improve or we try to replace him.

Mr. JONAS. Isn't this a better standard instead of having somebody figure out a mathematical formula?

Mr. GLEASON. This is on the average, Mr. Jonas.

We don't say to one person, "Now you have a case here. You have to take 3 hours and 4 minutes on it," or "You are only allowed 3 hours and 4 minutes." But on the average, sir, it would come out to approximately 3 hours and 4 minutes. And then if there is one individual who is very slow in his work and as Mr. Driver has pointed out, they have the same difficult cases to decide and one man can do better than the other——

Mr. JONAS. But you have a supervisor looking over this man's shoulder all the time.

Mr. GLEASON. Not all the time. The supervisor is going to have quite a job getting around to supervise all those under his jurisdiction, Mr. Jonas.

Mr. JONAS. How many do you have the supervisor supervise?

Mr. DRIVER. This depends on the type of supervisor.

In a program we are talking about, for example, we could have as many as 300 people or 400 people. They have had over the years as many as a thousand.

Take a rating board, for example, a three-man board deciding a case. The largest regional office we have has 13 rating boards. There would be one division chief, there might be three or four section chiefs who would also be in charge.

But to supervise properly among 67 offices we feel that it is most important there be some common guidelines for all of these people to follow. Our experience has indicated that these standards are proper; they allow for necessary development and judgment. We have to amend them from time to time as things become more or less complicated. If we get a new law, such as the pension law that was passed 3 years ago, we have to allow for this in the standard in letting people get used to it and that sort of thing.

Mr. THOMAS. Is it generally accepted throughout the agency and Government that these standards are quite valuable?

Mr. SHYTLE. Yes, sir.

Mr. THOMAS. Why?

Mr. MONK. Increases in productivity.

Mr. THOMAS. In routine cases that you have in any of your divisions—and you are bound to have some—do you say, "Well, we think a competent employee can do a half-dozen cases a day?" Is that what it amounts to?

Mr. MONK. Well, we try to steer away from any attempt to measure the individual's productivity.

Mr. THOMAS. What is the purpose of the measurement then?

Mr. MONK. We try to measure the group or the unit and not put a stopwatch or a production quota on an individual employee. We approach it from the standpoint of the unit or the group. The productivity of the unit or the group. We compare one with the other.

If they are low we try to bring them up and we have had remarkable success with our own work measurement program.

Supply Fund

Object classification

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
11 Personnel compensation:			
Permanent positions	3,548	3,979	4,175
Other personnel compensation	40	36	66
Total personnel compensation	3,588	4,015	4,241
12 Personnel benefits	282	302	317
21 Travel and transportation of persons	37	71	78
22 Transportation of things	1,715	1,703	1,753
23 Rent, communications, and utilities	153	168	170
24 Printing and reproduction	1,597	1,665	1,700
25 Other services	104	230	166
26 Supplies and materials	139,249	138,385	139,029
31 Equipment:			
For use of fund	100	266	188
For sale to others (expensed)	23,615	32,189	33,190
Total accrued expenditures	170,440	178,994	180,832
Change in unpaid undelivered orders	−555	−1,758	
Total obligations	169,885	177,236	180,832

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	618	621	624
Average number of all employees	586	606	611
Number of employees at end of year	611	615	618
Average GS grade	6.2	6.4	6.3
Average GS salary	$5,732	$6,134	$6,277

Mr. Thomas. Take a look at the supply program. You have no language under the Supply Fund this year but there are three more jobs and average employment is up 5 to 611. The Supply Fund finances the depots and the printing but there are about 3,200 other employees involved in supply operations.

Put pages 6–1, 6–2, and 6–3 in the record and we have an excellent table on 6–4.

(The pages referred to 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, biologicals, 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 171 field supply activities provide purchasing and warehousing facilities.

PROGRAM NOTES

The objective of the supply program is to provide quality support to 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 Services.
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 1964. No additional appropriation by the Congress will be required for its operation during fiscal year 1963 and fiscal year 1964.

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 of work produced in the supply program amounted to $214,671,011 actual in fiscal year 1962; $221,987,096 estimated in fiscal year 1963; and $225,380,145 estimated in fiscal year 1964.

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 1962, actual	$9.76
Fiscal year 1963, estimate	9.98
Fiscal year 1964, estimate	10.32

EXPLANATION OF INCREASES

Increase of five average employment financed by the supply fund at supply depots is required to sustain full employment of two additional employees at Hines Depot for the silver reclamation and the personal property maintenance program, and reinstating three average employment for book procurement temporarily suspended in fiscal year 1963.

Increase of four average employment at field supply activities is required for advanced staffing of the new VA hospital, Washington, D.C.

Supply Program

Distribution of cost, $26,695,630

	Fiscal year 1962, actual		Fiscal year 1963, estimate		Fiscal year 1964, estimate		Increase (+) or decrease (−) fiscal year 1964 over fiscal year 1963	
	Average employment	Cost	Average employment	Cost	Average employment	Cost	Average employment	Cost
Management and evaluation staff [1]	35	$312,304	37	$338,180	36	$363,401	−1	+$25,221
Supply service, D.M. & S.[2]	104	806,284	113	948,750	113	999,490		+50,740
Supply depots [3]	423	2,482,161	447	2,723,341	452	2,840,000	+5	+116,659
Printing and reproduction [3]	163	901,266	159	942,732	159	1,008,907		+66,175
Field supply activities [4]	3,067	16,455,375	3,044	17,195,571	3,048	18,055,468	+4	+859,897
Subtotal—VA supply program—Average employment and personnel compensation	3,792	20,957,390	3,800	22,148,574	3,808	23,267,266	+8	+1,118,692
Other objects:								
12 Personnel benefits		1,543,508		1,634,565		1,717,124		
21 Travel and transportation of persons		94,784		147,820		161,032		
23 Rents, communications, and utilities		578,742		578,154		580,154		
24 Printing and reproduction		124,153		122,036		126,892		
25 Other services		157,829		281,478		208,270		
26 Supplies and materials		538,176		520,526		553,432		
31 Equipment		79,880		140,210		81,460		
Subtotal—Other objects		3,117,072		3,424,789		3,428,364		+3,575
Total, supply program	3,792	24,074,462	3,800	25,573,363	3,808	26,695,630	+8	+1,122,267

[1] Departmental—General operating expense appropriation.
[2] Departmental—Medical, administrative, and miscellaneous operating expense appropriation.
[3] Field—Supply fund—Excludes cost of service rendered to DOD, HEW (OCDM) and GSA: $204,888, $349,284, and $391,881 for fiscal years 1962, 1963, and 1964, respectively.
[4] Field—Medical care appropriation—Includes employees located under departmental (GOE appropriation) but engaged in field-type operations: Average employment and salary cost (19) $111,640; (20) $117,834; (20) $123,495, for fiscal years 1962, 1963, and 1964, respectively.

Mr. THOMAS. Gentlemen, this almost tells the tale.

[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 subsistance for all civilian agencies.

Is that word "agencies"?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Outside of the Veterans' Administration?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What do you buy, canned goods?

Mr. GLEASON. This is nonperishable subsistence.

Mr. THOMAS. Doesn't General Services Administration have flour and sugar? They handle the big staple items, and you handle the canned goods?

Mr. COOK. We are doing all of the centralized purchasing including that which GSA has in its——

Mr. THOMAS. All the foods?

Mr. COOK. All the nonperishable foods.

Mr. THOMAS. Well, you don't handle any perishable goods, do you?

Mr. COOK. No, sir.

Mr. THOMAS. [Reading:]

The program provides a source of supply through VA supply depots and national VA contracts to hospitals of the Department of Health. * * *

You furnish the foods for HEW, canned goods, not perishables.

[Reading:]

It provides for the stockpiling and distribution of Civil Defense material for Department of Defense and HEW and for fire protection and guard services for GSA stockpiles located at Somerville Depot.

Well, your 170 field installations do their own purchasing don't they, of perishable goods, meats, vegetables, butter and eggs, and so forth?

Mr. GLEASON. Yes.

CENTRAL PURCHASING

Mr. OSTERTAG. What basic reason is applied to making the Veterans' Administration the central supply agency?

Mr. GLEASON. So various Government agencies and departments won't be bidding against one another, Mr. Ostertag.

Mr. OSTERTAG. Why wouldn't this properly be a General Services Administration responsibility?

Mr. GLEASON. Well, I think really the reason why we get it is because of our large number of installations. We do so much of it ourselves, taking on the additional amount for the other civilian agencies is quite feasible.

Mr. OSTERTAG. Because you are the largest user, and, therefore, you are the key supplier for all the agencies?

Mr. GLEASON. That is approximately correct; yes, sir.

Mr. THOMAS. May I call your attention to page 6–2, to No. 8 (reading):

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.

SUPPLY FUND FINANCING

Then here is this paragraph down there, and we will relate it to the table on employment. (Reading:)

Supply fund financing: The supply fund finances on a reimbursable basis the procurement of supplies and equipment consumed throughout the Veterans' Administration * * * appropriations reimburse the fund for the cost of supplies and equipment provided and services rendered * * *

The fund is expected to break even in fiscal year 1964. No additional appropriation by the Congress will be required for its operation during fiscal year 1963 and 1964.

What is the present inventory?

Now turn over to the next page. (Reading:)

Nonpersonal services such as contracts for laundry service, office machine repairs, research (medical and prosthetic), etc.

Workload: The total dollar volume of work produced in the supply program amounted to $214,671,011 actual in fiscal year 1962; $221,987,096 estimated in fiscal year 1963; and $225,380,145 estimated in fiscal year 1964.

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.

Now, you will notice is only supply salary costs. The other items are not included; rent and so forth. To each $100 of the total workload for the Veterans' Administration and other Government agencies.

We have for 1964, 10.32.

Now, if you will turn to 6–5, I think we use a different figure.

INVENTORY AND SALES DATA

Insert 6–5 in the record at this point.

(The page follows:)

Inventory and sales data, fiscal year 1962

Supplies and equipment	Average monthly inventory			Sale of goods	Ratio of sales to inventory
	Field stations	Supply depots	Total		
Provisions	$2,112,146	$4,753,627	$6,865,773	$46,810,214	6.8
General supplies	2,395,230	2,389,940	4,785,170	32,217,998	6.7
Drugs and medicines	4,281,175	2,145,812	6,426,987	28,322,607	4.4
Other medical supplies	2,876,923	4,906,702	7,783,625	23,894,177	3.1
Equipment	63,232	3,262,476	3,325,708	23,738,323	7.1
Fuel	1,088,946		1,088,946	5,913,982	5.4
Low sales and standby	1,720,144		1,720,144	2,267,962	1.3
Stocks withdrawn for shipment (unclassified)		156,611	156,611		
Repair services (S&R)				273,863	
Total	14,537,796	17,615,168	32,152,964	163,439,126	5.1
In transit between depots and stations			1,796,442		
S&R storeroom stocks			76,858		
S&R work in process			30,403		
Subtotal			34,056,667	163,439,126	4.8
Printing and reproduction: Forms, form letters			506,915	2,912,074	5.7
Work in process			11,287		
Total			34,574,869	166,351,200	4.8

NOTE.—Data provided in this table relates sales to average monthly inventory to reflect ratio of sales to inventory investment. Inventory figures differ slightly from closing inventories shown in financial statement of supply fund.

Mr. THOMAS. This is inventory and sales data. Supplies and equipment. Field stations. Supply depot. It is for provisions, general supplies, drugs and medicines, other medical supplies, equipment, fuel. I don't understand what you mean by "Low sales and standby."

Now, here are your activities. It gives the breakdown.

Field stations—I presume this is for 1962. It is $14.5 million.

Mr. MONK. That is the average monthly inventory in the field stations.

Mr. THOMAS. Supply depot, $17.6 million and this gives your total, here.

Now sale of goods, $163,439,000.

INVENTORY TURNOVER

Ratio of sales to inventory. What is this?

Mr. MONK. This is merely the turnover.

Mr. THOMAS. Dr. Monk, you anticipate me.

Mr. MONK. Excuse me, sir.

Mr. THOMAS. How often do you turn that stock?

Mr. MONK. On an average, 5.1 times a year.

Mr. THOMAS. How often is that?

Mr. MONK. That is about every 2 months, roughly.

Mr. THOMAS. That is pretty good.

Now, provisions is almost 7 percent.

Mr. MONK. That is a little better than once every 2 months.

Mr. THOMAS. General supplies, 6.7. Your slowest is what?

Mr. MONK. The slowest is the low sales items.

Mr. THOMAS. It is the medicine. Other medical supplies. Equipment, 7.1.

Now, it averages out 4.8. That is about every 2½ months you turn it over. Is that correct?

Mr. MONK. Yes, sir.

Mr. THOMAS. Is that what the table means?

Mr. MONK. Yes, sir.

Mr. THOMAS. Didn't he use a lower figure for this than 10 percent on the cost of the sales a few years ago? Didn't he use around 5½ or 5 percent?

Mr. COOK. That is the cost of the one program only. Not the total. This is for field stations and the hospital supply divisions and so forth.

Mr. THOMAS. How about the supply depots?

Mr. COOK. It isn't in the book, sir. The figure for fiscal year 1964 is 4.8.

Mr. THOMAS. Why should a supply depot turn twice as fast as a hospital where they don't have anything but perishable supplies? That doesn't make sense.

Mr. COOK. I thought we were speaking of the cost and not the turn.

Mr. THOMAS. I am sorry, I am mixed up. You are right. The cost is about half in the supply depot as it is in the hospital.

Mr. COOK. Yes.

COSTS OF SALES

Mr. THOMAS. What is that exact cost of sales figure? Do you have a figure there for fiscal year 1962 and fiscal year 1963?

Mr. COOK. The cost for sales on the dollar for the supply depots would be 4.7 in fiscal year 1962, 4.7½ in fiscal year 1963, and 4.8 in 1964.

Mr. THOMAS. Where are you reading that?

Mr. COOK. I do not have it in the books, sir. Those are papers I have.

Mr. THOMAS. What is it exactly in the hospitals?

Mr. COOK. I do not have that, sir. It should be about comparable, just a little higher. The cost for the total sales.

Mr. THOMAS. Cost of doing business, not the cost of getting the food on the table or the cost of getting the food in the storage room.

Mr. COOK. It should be around 8½ cents on the dollar in the hospital only.

Mr. THOMAS. It would be at least 60 percent higher, then.

Mr. COOK. Yes, sir.

LOCATION OF SUPPLY DEPOTS

Mr. THOMAS. Where are your three warehouses, Somerville, N.J., and where else?

Mr. COOK. Hines, Ill., and Wilmington, Calif.

Mr. THOMAS. You do not have any down in the Southeast now?

Mr. COOK. No, sir.

Mr. JONAS. Will you yield, Mr. Chairman?

Mr. THOMAS. Yes.

PROCUREMENT PRACTICES

Mr. JONAS. In procuring these supplies for civilian agencies, do they withdraw on requisition the supplies from your depots or do you purchase for them for direct shipment?

Mr. GLEASON. I believe it is on a reimbursable basis.

Mr. JONAS. I know that. How do they get the goods?

Mr. COOK. We do it both ways, sir, depending on which is the cheaper.

Mr. JONAS. If you are notified by HEW that the Department wants a certain amount of goods at a certain hospital, you can either furnish that out of your own supply depot or you can go out and buy it in the market and have it shipped direct. Which is the cheaper way of doing it?

Mr. COOK. It depends strictly on the item they are after. It would vary according to the practice of the particular trade that is selling the item.

Mr. JONAS. That amounts to a lot of shuffling of papers back and forth.

Mr. COOK. Yes, sir.

Mr. JONAS. There is quite a bit of paperwork involved in that kind of transaction.

Mr. GLEASON. Items such as the microscopes and so on, Mr. Jonas, sometimes it would not be worth our while to stock them because of their tremendous expense.

Mr. JONAS. I was thinking about foodstuffs.
Mr. GLEASON. And foodstuffs.
Mr. THOMAS. You buy all of the drugs for everybody except DOD?
Mr. COOK. Yes, sir.
Mr. THOMAS. At——
Mr. COOK. At Somerville, N.J.
Mr. THOMAS. What do you buy exclusively at Hines?
Mr. COOK. Food, certain laboratory equipment, dental, medical, surgical instruments.
Mr. THOMAS. Three big warehouses have a special field of procurement. Somerville buys the drugs. One time they paid $100 for pills. Two weeks later they went down to $15 for the same pill. Hines is all your equipment. What do you buy in California?
Mr. COOK. There is no purchasing in California, sir.
Mr. THOMAS. Where is the furniture, bed supplies, and so forth bought? Do you buy that at Hines now?
Mr. COOK. Beds and those items are bought at Hines, I believe.

WILMINGTON, CALIF., DEPOT

Mr. THOMAS. You do no procurement in California?
Mr. COOK. No, sir.
Mr. THOMAS. What do you have in the big warehouse?
Mr. COOK. Just the warehouse operation.
Mr. THOMAS. What is in it?
Mr. COOK. We have the same supplies in it, sir, we have in Hines and Somerville. The purchasing is done at one of the warehouses, but stocks go to all three.
Mr. GLEASON. It is Wilmington, Calif.
Mr. THOMAS. You are right up along the railroad. It is about 700 or 800 or about 1,000 feet long, is it not?
Mr. COOK. Almost 1,000 feet, I believe.
Mr. THOMAS. I have not been in it in 2 years. The last time I was in it it was just about half filled.
What kind of deal do you have with the rental of that building?
Mr. COOK. The General Services Administration operates it, sir, so far as the utilities are concerned and as far as ownership of the property.
Mr. THOMAS. Who has title to the building?
Mr. COOK. GSA.
Mr. THOMAS. Did they buy that from Wilmington? That was an old Army depot.
Mr. COOK. Yes, sir.
Mr. THOMAS. It was built on Wilmington's land.
Mr. COOK. The land is still owned by the Port of Los Angeles.
Mr. THOMAS. What is the arrangement? The city owns the land? What do you pay for ground rent, sir?
Mr. COOK. I do not know. We do not pay it. GSA pays for it.
Mr. THOMAS. It is for your benefit. You ought to know what rent they pay for it.
Mr. COOK. Strictly from memory, sir, it is about $40,000 a year, including guard service and utilities.

Mr. THOMAS. What was that square footage rent on the property out there? It was more than that, was it not? In addition you were paying all the utility costs.

You had in excess of a half million square feet in that building, did you not?

Mr. COOK. We are only using 200,000 feet out there, sir. There are 609,000 feet. We are using a third of it.

Mr. THOMAS. Who did you rent the other part of it to?

Mr. COOK. GSA themselves are in part of it, sir, for public buildings service shop operations in the Los Angeles area, I believe. I do not know who else.

Mr. THOMAS. There are repair shops there?

Mr. COOK. Yes, sir.

REPAIR SHOP AT HINES

Mr. THOMAS. What about your furniture repair shop and your instrument repair shop in Hines? How is it doing? How many employees do you have in it?

Mr. COOK. About 20, sir.

Mr. THOMAS. They have two or three people there who will work on almost any piece of equipment and when they get through with it it is practically new. They will work on an X-ray table or dental chair.

Mr. OSTERTAG. Before you leave this subject, I have a question.

Mr. THOMAS. Mr. Ostertag.

SUPPLY FUND GOVERNMENT EQUITY

Mr. OSTERTAG. I would like to get this whole picture of the supply fund in perspective so that one can see it.

Can you give us a figure as to what the fund is worth, including your inventory and cash on hand? What is the fund worth in the first place?

Mr. COOK. About $40 million.

Mr. GLEASON. On page 6–9, Mr. Ostertag.

Mr. THOMAS. Take your tables on page 6–6.

Mr. OSTERTAG. What I am leading up to, for fiscal year 1964 you anticipate sales and revenues to offset one another. Is that correct?

Mr. COOK. Yes, sir.

Mr. OSTERTAG. But there will be an inventory or cash on hand other than that. The point is that the fund ought to be worth in value, either in cash or in goods, the equivalent of your inventory.

Mr. THOMAS. In round figures, $39,980,000.

Mr. GLEASON. Take a look at 6–9, too. You see the unpaid, undelivered orders, unobligated balance and estimated capital on earnings. That totals $39,985,000.

Mr. OSTERTAG. During the course of the year you will have sales equal to about $180 million. That is turned over because you are receiving pay for the goods you sell to the tune of $180 million. Yet the total fund in inventory and cash is only worth about $40 million; is that correct?

Mr. COOK. Yes, sir.

Mr. OSTERTAG. That is what I wanted to determine.

Mr. THOMAS. All of which means they turn it over four and a half times a year in round figures.

RECEIVABLES

Mr. OSTERTAG. How much time do you have to wait for payment from the agencies as a rule?

Mr. GLEASON. A lot of it is bookkeeping entries.

Mr. OSTERTAG. They actually pay you for the goods you sell?

Mr. GLEASON. That is right.

Mr. OSTERTAG. It is not a bookkeeping transaction exactly. You replenish the fund with cash. It is a transfer of funds. How long does it take?

Mr. COOK. A maximum of 30 days, sir. Much of it is quicker. That is the maximum.

Mr. OSTERTAG. In other words, there is a 30-day interval, generally speaking.

Mr. THOMAS. Let us put these together, gentlemen: 6–6, 6–7, 6–8, and 6–9.

(The justification pages follow:)

SUPPLY FUND

Program and financing

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Program by activities:			
Operating costs, funded:			
1. Procurement, distribution and services program:			
Cost of goods sold	$159,391,843	$169,965,220	$171,678,639
Other expense	5,197,063	5,767,096	5,889,391
2. Publications and reproduction program:			
Cost of goods sold	1,713,924	1,788,480	1,825,674
Other expense	1,184,901	1,188,920	1,250,031
Total operating costs, funded	167,487,731	178,709,716	180,643,735
Change in selected resources [1]	2,297,211	−1,739,949	
Total operating costs (obligations)	169,784,942	176,969,767	180,643,735
Capital outlay:			
1. Procurement, distribution and services program:			
Purchase of equipment	63,154	174,960	168,570
2. Publications and reproduction program:			
Purchase of equipment	37,129	90,675	19,940
Total capital outlay	100,283	265,635	188,510
Total operating costs, funded and capital outlay (obligations)	169,885,225	177,235,402	180,832,245
Financing:			
Revenue and other receipts:			
Procurement, distribution and services program:			
Revenue	164,553,715	175,898,150	177,628,150
Publications and reproduction program: Revenue	2,912,074	3,016,469	3,109,000
Total revenue	167,465,789	178,914,619	180,737,150
Unobligated balance brought forward (negative)	−8,303,953	−10,723,389	−9,044,172
Unobligated balance carried forward (negative)	10,723,389	9,044,172	9,139,267
Financing applied to program	169,885,225	177,235,402	180,832,245

[1] Balances of selected resources are identified on the statement of financial condition.

Revenue, expense, and retained earnings

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Procurement distribution and services program:			
Revenue	$167,465,789	$178,914,619	$180,737,150
Expense	167,548,471	178,779,916	180,727,150
Net operating income or loss (−) procurement, distribution and services program	−82,682	134,703	10,000
Nonoperating loss (−):			
Proceeds from sale of equipment	3,432	2,600	2,600
Net book value of assets sold (−)	−16,692	−12,600	−12,600
Net loss (−) from sale of equipment	−13,260	−10,000	−10,000
Net income or loss (−) for the year	−95,942	124,703	
Analysis of retained earnings:			
Retained earnings or deficit (−) start of year	−28,761	−124,703	
Retained earnings or deficit (−) end of year	−124,703		

Financial condition

	Fiscal year 1961 actual	Fiscal year 1962 actual	Fiscal year 1963 estimate	Fiscal year 1964 estimate
Assets:				
Cash with Treasury	$9,673,491	$11,605,492	$11,055,828	$10,960,733
Accounts receivable, net	8,451,317	6,889,066	6,500,000	6,500,000
Selected assets:				
Commodities for sale	31,339,312	34,163,639	34,200,000	34,200,000
Prepaid expenses and other assets	90,425	118,013	100,000	100,000
Fixed assets, net	201,515	544,323	729,758	824,853
Total assets	49,756,060	53,320,533	52,585,586	52,585,586
Liabilities: Current	10,115,760	13,459,650	12,600,000	12,600,000
Government equity:				
Non-interest-bearing capital:				
Start of year	39,669,061	39,669,061	39,985,586	39,985,586
Donated assets, net		316,525		
End of year	39,669,061	39,985,586	39,985,586	39,985,586
Retained earnings or deficit (−)	−28,761	−124,703		
Total Government equity	39,640,300	39,860,883	39,985,586	39,985,586

Analysis of Government equity

	Fiscal year 1961 actual	Fiscal year 1962 actual	Fiscal year 1963 estimate	Fiscal year 1964 estimate
Unpaid undelivered orders	$16,313,001	$15,758,297	$14,000,000	$14,000,000
Unobligated balance (negative)	−8,303,953	−10,723,389	−9,044,172	−9,139,267
Invested capital and earnings	31,631,252	34,825,975	35,029,758	35,124,853
Total Government equity	39,640,300	39,860,883	39,985,586	39,985,586

Mr. THOMAS. Look at the table on 6–6. This is your financing: Operating costs, funded; procurement and distribution; cost of goods sold—that shows you will sell about $171.6 million in 1964.

This gives your financing. Let's take your assets on 6–8. Here are your liabilities. Accounts receivable are $6.5 million. When you get through on page 6–9, that shows total Government equity, round figures, $39,985,000. That is just about the same as your average inventory, is it not?

Mr. MONK. It would not be quite that much, sir. Some of that would be in cash. It would be slightly less for the inventory.

Mr. THOMAS. What is a good figure for the inventory?

Mr. GLEASON. $35,124,000.

Mr. THOMAS. That includes prepaid expenses and fixed assets. What is your total amount of business, $171.6 million?

Mr. MONK. $180 million.

Mr. GLEASON. $180,737,150.

Mr. THOMAS. You have $171.6 million for cost of goods sold. That is the best figure I see.

Mr. MONK. Yes, sir.

Mr. THOMAS. That is $171 million, then. Do you make a little profit on the HEW?

Mr. MONK. We make our expense on HEW.

MARKUP ON SALES

Mr. THOMAS. Tell us now what is your markup to all your customers?

Mr. COOK. On food, sir, it is 8 percent, including freight to the customer's location. On everything else it is 11 percent, including freight to the customer's location, the use point.

Mr. EVINS. That is good money.

Mr. THOMAS. That operates you on a break-even basis?

Mr. COOK. Yes, sir.

Mr. THOMAS. The only thing you make the customer pay for is the freight bill, not the operating cost?

Mr. COOK. The cost of all the people in our three warehouses and all of our buying people are in there, too.

Mr. THOMAS. Everything, including freight?

Mr. COOK. Including freight.

Mr. THOMAS. That is agencywide and to HEW and anybody else?

Mr. COOK. Yes, sir.

Mr. THOMAS. How does that vary from GSA?

Mr. COOK. They do not include their warehouse costs in their price.

Mr. THOMAS. It is just the freight?

Mr. COOK. Yes, sir.

SHIPPING COSTS AND CONTRACTS

Mr. THOMAS. What about your delivery from the warehouse to your customers?

Mr. COOK. That is included in the markup.

Mr. THOMAS. How do you get it delivered?

Mr. COOK. We ship it mostly by carload—truckload. Mostly by truck.

Mr. THOMAS. Who makes those contracts?

Mr. COOK. The people at the warehouse, sir.

Mr. THOMAS. What is your shipping bill a year from your three warehouses?

Mr. COOK. Roughly $900,000 per year.

Mr. THOMAS. From all three of your warehouses total?

Mr. COOK. Yes, sir.

Mr. THOMAS. Which one does the most business?
Mr. COOK. Hines.
Mr. THOMAS. Which is next?
Mr. COOK. Somerville.
Mr. THOMAS. How do you let the contracts?
Mr. COOK. Mostly by competitive advertising, sir.

ITEMS NOT FINANCED THROUGH THE FUND

Mr. OSTERTAG. Your workload is estimated at $225 million for fiscal year 1964?
Mr. COOK. Yes, sir.
Mr. OSTERTAG. And yet under revenues and expenses, the volume is listed at $180 million. What is the difference between the $225 million workload and the estimated revenue and expense of $180 million?
Mr. COOK. Only the hard commodities; virtually all the hard commodities go through the supply fund. Any contracts we make for services, such as repair of equipment do not. They are not processed through the supply fund.

PERSONNEL COSTS

Mr. THOMAS. Let us take a look at that table where you pulled it all together, 6–4. Look at the personnel.
Management and evaluation staff, 35 for 1962, 37 for 1963, and 36 for 1964 at a cost of $363,400. Where are these people located?
Mr. COOK. In Washington, sir.
Mr. THOMAS. Who finances them?
Mr. COOK. The general administration, general operating expense program.
Mr. THOMAS. General operating expense appropriation, and it is not charged to part of that 11 or 8 percent?
Mr. COOK. No, sir.
Mr. THOMAS. Your supply service; you have 104 in 1962 and 113 in 1963 and 1964. The cost in round figures of a million dollars. Where is that financed?
Mr. COOK. From the medical administration and miscellaneous operating expenses appropriation.
Mr. THOMAS. That still is not a part of that 8 or 11 percent, is it?
Mr. COOK. No, sir.
Mr. THOMAS. When we get through we will have to put those figures up a little higher.
Supply depots—your three big ones—in 1962 average employment is 423; in 1963 it is 447; and next year it is 452. You go up five this year, at a cost of $2,840,000. How is that financed?
Mr. COOK. From the supply fund.

SUPPLY DEPOT FINANCING

Mr. THOMAS. The supply depots exclude cost of services rendered to DOD, HEW, OSDM, and GSA. Those figures are set out respectively for those four agencies, $204,888, $349,000, $391,000, et cetera, for fiscal years 1962, 1963, and 1964, respectively. Are these transferred funds, the items in the footnote?
Mr. COOK. Yes, sir.

Mr. THOMAS. Are they in addition to the $2,840,000?

Mr. COOK. Yes, sir.

Mr. THOMAS. That 11 percent goes up again, does it not?

Mr. COOK. No, sir. These are not sale of goods. These are for custodial services furnished to these people at Somerville, N.J.

Mr. THOMAS. You just said a while ago you lumped it all in.

Mr. GLEASON. Those are on the supplies that are shipped out to these other agencies.

Mr. THOMAS. That is what this crowd does right here, your three big depots. They receive, warehouse, and ship.

Mr. GLEASON. This cost as I understand it, Mr. Chairman, is merely for the use of the space in the warehouse by the agencies.

Mr. THOMAS. No. This is your personnel cost.

Mr. MONK. What is this cost?

Mr. COOK. This is all costs in this case. This includes the utility the stockpiling uses.

Mr. THOMAS. Cost of running the installation?

Mr. COOK. Yes, sir.

Mr. THOMAS. Break the three supply depots down. How much of that space at Somerville are you using? How much do you charge to yourself, how much do you charge to GSA, and who else is in there?

Mr. COOK. OCDM.

Mr. THOMAS. That is HEW then.

Mr. COOK. Yes.

Mr. THOMAS. What do you pay for the warehouse? Did we finally buy that?

Mr. COOK. That was free to us. The Government built it.

Mr. THOMAS. That was an old military depot at Somerville. We do not charge any rent against it, do we? How much of that space are you using for VA?

Mr. COOK. Roughly 600,000 square feet, I believe.

Mr. THOMAS. What is HEW using?

Mr. COOK. They are using 425,000 feet.

Mr. THOMAS. How many square feet are there? There must be a million square feet.

Mr. COOK. A million square feet in the Veterans' Administration installation; yes, sir.

Mr. EVINS. That is a pretty good deal.

Mr. THOMAS. That is Government-owned. It was an old military installation. We took it over. It was built during the war.

What is your maintenance charge on that depot? You fixed up some reasonably nice offices there.

Mr. COOK. It runs a little over $300,000 per year, sir, for maintenance and plant operations.

Mr. THOMAS. Where is that charged?

Mr. COOK. That is in these figures on 6–4, sir. The salaries are in the $2.8 million and other costs are in the other objects below it.

Mr. THOMAS. It is charged where in your other objects?

Mr. COOK. It would appear in all of them. The biggest cost would be in utilities, in the supplies and materials, and the other services.

Mr. THOMAS. So your maintenance and operation, outside of salaries is covered in the other objects, in some half dozen classifications?

Mr. COOK. Yes, sir.

Mr. THOMAS. We have our maintenance crew there as well as I remember.

Mr. COOK. Yes, sir.

Mr. THOMAS. It is under force account.

Printing and reproduction, 163 employes for 1962, 159 employees for 1963, 159 for 1964, at a cost of $1,008,000. How is that financed?

Mr. COOK. Through the revolving supply fund, sir.

Mr. THOMAS. Again that is charged to the supply fund.

Field supply activities; 3,067, 3,044, 3,048 employees at a total cost of $18,055,000. Where is this financed?

Mr. MONK. Medical care.

Mr. THOMAS. Look at footnote 4 (reading):

Field medical care appropriation, includes employees located under Departmental general operating expense, but engaged in field type operations: Average employment and salary cost, $111,000, 19 employees, 20 employees, $117,000, et cetera, for the fiscal years 1962 and 1963, respectively.

It is spread all over the lot. How many employees do you have under your jurisdiction this year—3,800, and you want to increase that eight employees next year; is that correct.

Mr. COOK. Yes, sir.

Mr. THOMAS. How much more business are you going to do in 1964 than you did in 1963?

Mr. GLEASON. $3,400,000, sir.

Mr. THOMAS. That goes back to the first table over here, 6–3.

Mr. MONK. It is under workload.

TOTAL DOLLAR VOLUME OF WORK PRODUCED

Mr. THOMAS. This is already in the record, but it ought to be inserted here again because it fits in: "The total dollar volume of work produced in the supply program in 1962 was $214,671,011; $221,987,096 estimated in 1963."

That is an estimated figure. Is it turning out to be about right?

Mr. COOK. Yes, sir.

Mr. THOMAS. Then you estimate that you will increase that volume by $4 million for 1964, or $225,380,000.

Why the increase? Where will the increase go?

Mr. COOK. Additional supply requirements in the medical care program, mostly, sir.

Mr. THOMAS. That is your big customer, of course.

Mr. COOK. Yes, sir.

Mr. THOMAS. And to the hospitals?

Mr. COOK. Yes, sir.

NEW HOSPITALS

Mr. GLEASON. We are going to have a number of new hospitals in 1964, sir.

Mr. THOMAS. A number. What number?

Mr. GLEASON. We will have Cleveland opening up, Washington, D.C.

Mr. THOMAS. The Washington one, the Cleveland hospital has been opened about 6 months, has it not?

Mr. GLEASON. No, sir. That is still in construction. You are thinking of Brecksville, sir.

Mr. EVINS. A suburb of Cleveland.

Mr. THOMAS. Is there one in California?

Mr. GLEASON. Martinez will probably be opened in 1964, too.

Mr. THOMAS. The early part of next year?

Mr. GLEASON. Martinez is about 90 percent completed right now.

Mr. THOMAS. What are you going to do with this hospital here in the District of Columbia?

Mr. EVINS. That is Mount Alto.

Mr. GLEASON. We will probably declare that surplus.

Mr. THOMAS. You are keeping it up now. Is it fully occupied? These are replacement hospitals?

Mr. GLEASON. That is right.

Mr. THOMAS. Why is the cost going up then?

Mr. GLEASON. I will tell you one reason it is going up is that we are taking care of more patients per year. As we mentioned yesterday, the figure we estimate for 1964 will be taking care of about 10,000 more patients in 1964 than we will do in 1963.

Mr. THOMAS. So the replacement of the three hospitals is not the answer.

Mr. GLEASON. Not completely, Mr. Chairman.

Mr. THOMAS. The answer is you are taking care of more patients, 10,000 more for a cost of $5 million. How much is that per patient?

Dr. MIDDLETON. It was $27 per patient-day last year in general hospitals and will be $29.98 next year.

Mr. THOMAS. Per day?

Mr. MIDDLETON. Yes, sir.

Mr. GLEASON. We will have another hospital opening up soon.

SILVER RECLAMATION PROGRAM

Mr. OSTERTAG. I note in your justifications the estimated increase in the number of employees at Hines, for the purpose of silver reclamation. What does that mean?

Mr. GLEASON. We have a program, as you know, in taking X-rays there is a silver coating on the plates and so that we just do not throw this away we have a process out there where the X-ray plates themselves go through a process and the silver is reclaimed. The silver can be used again.

Mr. OSTERTAG. Will this take two additional employees?

Mr. GLEASON. Yes, sir; but the money we save in doing this is more than the cost of operation. We do the same thing with gold, too.

Mr. OSTERTAG. How many are involved in this operation?

Mr. GLEASON. I really cannot tell you. We can find out for you.

Mr. THOMAS. You only have 15 or 20 people, as I remember.

Mr. GLEASON. We do the same thing in gold also, Mr. Ostertag. When a dentist fills a tooth with gold and there are these little pieces of filing that come off, this is also reclaimed.

Mr. OSTERTAG. I can see perhaps where that would be a real saving of money rather than a waste.

Mr. GLEASON. Otherwise the plates go to waste.

Mr. THOMAS. How many people do you have in the shop at Hines?

Mr. MONK. Not the silver reclamation——

Mr. COOK. The last figure I have is 21.

Mr. EVINS. I am in favor of saving all the gold we can, Mr. Chairman.

Mr. GLEASON. Mr. Ostertag, I am told that the figure is a saving of about $100,000 a year on this reclamation program.

Mr. THOMAS. In the entire shop?

Mr. GLEASON. Silver.

Mr. THOMAS. Silver alone?

Mr. GLEASON. Yes.

COST AND SAVINGS ON HINES RECLAMATION SHOP

Mr. THOMAS. Give us a figure on your entire shop. What does it cost you? What do you think are the beneficial results? As well as I remember your management at one of the hospitals told me if they had an operating table, dental chair, or anything they wanted fixed, they would send it out there and fix it but they wanted cash in advance. Do you have any figures on that?

Mr. COOK. Total cost of the service and reclamation sir, is roughly $500,000 a year, of which $377,000 is salaries. What we return to the Government we do not know. We have estimated it may be as much as $5 million per year.

Mr. EVINS. That is pretty good, $500,000 and $5 million.

Mr. THOMAS. I will bet you it is not too far wrong.

TRAVEL COSTS—SUPPLY PROGRAM

Mr. THOMAS. Let us take a look at your other objects; travel and transportation of persons. You jump from $94,784 in 1962 to $147,820 in 1963 and in 1964 you go up to $161,000. Why do you have employee travel? You do a lot of travel in the trucks shipping that merchandise around but who is going to do any traveling besides those trucks and the delivery people?

Mr. COOK. Over one-third of this is for the same 49 service and reclamation people. They go to the hospitals as you know, to make repairs of equipment there in many cases where there is a breakdown.

Mr. THOMAS. Judge, I lost you in your beginning statement.

Mr. COOK. About one-third of that expense is for the service and reclamation people.

Mr. THOMAS. No. A man there told me:

"If they want me to do a job, I will be glad to do it, but I charge them in advance."

He is dealing at arm's length. I do not think I could dream that up now. Where does the travel come in?

Mr. COOK. We do pay those people's travel expenses from this fund, sir, in this particular account.

Mr. THOMAS. What people?

Mr. COOK. The service and reclamation people from the shops. They go to the hospitals in many cases.

Mr. THOMAS. And reinstall the equipment?

Mr. COOK. In many cases, yes, sir. Sometimes they repair it at the hospital itself rather than return it to the shop at Hines, Somerville, or Wilmington.

Mr. THOMAS. How many people do you have in travel status out of the 21 people out there? How do they do repair work in one of Dr. Middleton's operating rooms?

Mr. COOK. It could be any one of about 40 people of the 49.

Mr. THOMAS. Forty-nine? I thought you said you had 21.

Mr. COOK. In Hines, sir; 49 in the total program in all three places.

OTHER RECLAMATION SHOPS

Mr. THOMAS. Do you have a repair shop in all three of your depots?

Mr. COOK. Yes, sir. They are smaller than the one at Hines. We have them at Somerville and Wilmington, also.

Mr. THOMAS. You do not have a maintenance shop agencywide, do you?

Mr. COOK. Yes, sir.

Mr. THOMAS. I overlooked that. How long has it been there?

Mr. COOK. For some time, sir.

Mr. THOMAS. This travel covers the three installations?

Mr. COOK. Yes, sir; from those three installations.

NATURE OF EMPLOYEE TRAVEL

Mr. THOMAS. And there will be how many people in travel status?

Mr. COOK. Forty of the forty-nine people would travel, sir, roughly.

Mr. THOMAS. $147,000. How much of this travel money was expended at January 1 of this year?

Mr. COOK. I do not have that, sir. I could supply it.

Mr. MONK. Of course, this travel figure, Mr. Chairman, would also include the travel of the field people that are in the hospitals in the supply program. This is a composite total figure.

Mr. THOMAS. Where are they going to travel, downtown to the wholesale grocery house?

Mr. BAKER. There would not be very much of that.

Mr. THOMAS. That is what you call local travel, riding the bus or his own automobile.

Mr. BAKER. It might be to a technical meeting or something like that.

There would not be a whole lot of that.

Mr. JONAS. That is $4,000 a year per person to travel.

Mr. THOMAS. Gentlemen, the expenses of the Government are getting out of line. There has been a suggestion to this committee that we reduce all travel by 25 percent this year. So far it appears to me that the VA could stand at least 25 percent, outside of patient travel; that is over in the field of medicine. I refer to general operating expenses.

Mr. JONAS. You could hardly spend $4,000 a year per man without keeping him on the road all the time.

Mr. THOMAS. They will say they are not going to be able to repair the furniture, then.

PRINTING AND REPRODUCTION—SUPPLY PROGRAM

Let us take a look at printing and reproduction. You have your own printing plant. Where is that located?

Mr. Cook. At Shirlington, Va., sir.
Mr. Thomas. How many people do you have there?
Mr. Monk. 159.
Mr. Thomas. Is that where all your forms and letterheads are printed?
Mr. Monk. Yes, sir.
Mr. Thomas. You do not do any business with the Printing Office?
Mr. Monk. We do some with the Government Printing Office.
Mr. Thomas. What does this cover? There are no salaries in this at all.
Mr. Monk. Down below, no, sir; not in the other objects.
Mr. Thomas. What is the $126,892? It is an increase of about $5,000 over last year. What does it cover?
Mr. Cook. This figures, sir, is the cost of the printing that the supply program itself uses, mostly forms.
Mr. Thomas. Is there any salary cost charged to this item?
Mr. Cook. Not in the $126,000, sir.
Mr. Thomas. What are the items that make up the total?
Mr. Cook. These are the field supply activities. This is what the hospitals use in the way of forms, themselves, the paper forms we use for our paperwork.
Mr. Monk. Requisition forms, purchase orders, vouchers.
Mr. Thomas. Is it paper stock?
Mr. Monk. Paper stock.
Mr. Thomas. Is there anything else besides paper stock? Are there printing presses involved in it?
Mr. Cook. Not in that one, sir.
Mr. Thomas. No equipment charge?
Mr. Monk. No, sir.
Mr. Thomas. Where do you buy the paper from?
Mr. Cook. Government Printing Office.
Mr. Thomas. You do not get that from GSA?
Mr. Cook. Government Printing Office, sir.
Mr. Thomas. How much paper stock do you keep on hand?
Mr. Cook. I do not have that figure, sir.
Mr. Thomas. What is your best guess?
Mr. Cook. $50,000 worth at a time.

OTHER SERVICES—SUPPLY PROGRAM

Mr. Thomas. Your other services are $281,000 this year. It goes down to $208,000 for next year and for 1962 it was $157,000. What are those items in other services?
Mr. Cook. Contracts that the supply program itself makes for its own use, repair of equipment, upkeep of our warehouse equipment.
Mr. Thomas. Break it down for us.
Mr. Cook. I will have to supply that, sir. I do not have it with me.
Mr. Thomas. Who can do it? Why does it go off $73,000 in 1964 against this year?
Mr. Cook. Part of that, sir, is maintenance, building contract maintenance of the three warehouses we spoke about.
Mr. Thomas. Is that Government property out there?

Mr. COOK. Yes, sir; two warehouses, Hines and Somerville.

Mr. THOMAS. This covers all three of them, in other objects?

Mr. COOK. Yes, sir.

Mr. THOMAS. What did you do to it this year to the tune of $281,000 in the way of maintenance?

Mr. COOK. We did some work on the roof at Hines. I do not have the cost figures.

Mr. THOMAS. What are you going to do next year with this estimated figure of $208,000? What will be your unobligated balance for this item for 1963? Do you have a figure on that? What did you have obligated up to the 1st of January? Does this come in your shop, Mr. Comptroller?

Mr. HANSMAN. No, sir.

Mr. THOMAS. Aren't you the overall financial man? Don't you ride herd on the merchant prince and all the rest of these gentlemen?

Mr. HANSMAN. We try, sir.

Mr. THOMAS. He got away from you here.

Mr. JONAS. I think we ought to get a table to show what that expense was, for the record, Mr. Chairman.

Mr. GLEASON. We can supply that, Mr. Jonas.

Mr. JONAS. Show what you spent the $281,500 for for 1963.

Mr. GLEASON. These are the ones you would like to see?

Mr. JONAS. Yes, sir.

(The information supplied follows:)

Supply program—Distribution of object 25

	Fiscal year 1962		Fiscal year 1963		Fiscal year 1964	
Supply Management Service		$785		$3,658		$3,300
Repairs to equipment and furniture	$185		$458		$400	
Training costs	600		3,200		2,900	
C.O. Supply Division, repairs to equipment and furniture		182		300		300
Service and Reclamation (Supply Fund), plating and refinishing		31,996		32,500		32,500
Books and periodicals (Supply Fund), repairs to equipment and furniture		40		100		100
Printing and reproduction (Supply Fund), repairs to equipment and furniture		9,350		6,220		6,370
Supply depots (Supply Fund)		61,442		184,600		111,600
Repair of equipment and furniture	17,057		26,600		26,600	
Roof replacement	5,548		25,000		25,000	
Pave garage parking lot	4,918					
Electric panels	4,773					
Repairs to Building No. 1, Somerville	14,206					
Warehouse overhead doors	5,027					
Repairs to Building No. 21, Hines			5,000			
Railroad repair			7,500			
Roof repair, Somerville, Buildings Nos. 14, 15, and 57			12,500			
Reservoir repair, Somerville			17,800			
Renovation to lighting, Somerville, Buildings Nos. 14 and No. 15			25,000			
New parking area			17,000			
Firedoor renovation			13,200			
Renovation of loading bumpers dock	9,913		10,000		10,000	
Relocation of engineer shops and office			25,000			
Lower ceiling, Somerville Building No. 1					10,000	
Resurface patrol roads					13,000	
Repair water tank					5,000	
Renovate warehouse overhead doors					5,000	
Renovate cafeteria					5,000	
Repair firewalls					12,000	
Field station, repairs to equipment and furniture		54,034		54,100		54,100
Total		157,829		281,478		208,270

Mr. OSTERTAG. I wanted to raise a question about the ratio of the cost of administering this program which I believe your justification shows as 10.32 percent. I figured it to be close to 11 percent, but it is 10.32. Is that not a rather high percentage of cost? For example, the GSA ratio is about 4 percent.

Mr. COOK. Sir, that is a wholesale operation. Our wholesale operation is at least as inexpensive as theirs. They do not have these local operations at 171 places as we do.

Mr. OSTERTAG. Do you think the 10.32 is a reasonable percentage, despite the comparative difference between the two?

Mr. COOK. Yes, sir.

Mr. JONAS. It appears to be going up.

Mr. OSTERTAG. Your ratio is going up, of course. How do you figure that?

Mr. COOK. The total increase is for pay raises.

Mr. OSTERTAG. The volume?

Mr. GLEASON. The pay increase caused this to go up.

Mr. OSTERTAG. I suppose the same thing would apply in GSA as well.

Mr. GLEASON. It would, sir.

Mr. OSTERTAG. It seemed to me that, in view of the General Services percentage of cost, down as low as 4 percent and yours up to 10.32, there is quite a spread and I wondered what the reasons might be. I wondered what you could apply as being the reasoning for it.

Mr. COOK. Our wholesale operation which is all that GSA has is only 4.81.

Mr. OSTERTAG. What do you mean wholesale operation?

Mr. COOK. National buying and major warehouses. They have nothing equivalent to our hospital supply program.

Mr. DRIVER. Doing business is just as cheap, but when you do it in 171 different locations it becomes more of a retail operation.

Mr. OSTERTAG. You are spread out more. That steps up the average cost?

Mr. COOK. Yes, sir.

Mr. DRIVER. We have the using as well as the supplying points.

Mr. JONAS. Are you sure that increase of 1964 over 1963 is attributable solely to the pay increase?

Mr. COOK. There are eight people additional, sir.

Mr. JONAS. Plus eight people?

Mr. COOK. Yes, sir.

Mr. JONAS. It is thirty-four one-hundredths of 1 percent increase.

Mr. EVINS (presiding). If you gentlemen have concluded, of the $26.6 million for the cost of distribution in your supply program for 1962, $538,176 was the amount required for supplies and materials. For 1963 it is $520,526 and for 1964 it is estimated to be $553,432. Why is the supply and material cost to be increased next year? It amounts to $33,000, Mr. Cook. Why will this increased cost be required?

Mr. COOK. These are the supplies and materials used by the supply program itself, sir. They are going up along with the total supply budget of the agency.

Mr. EVINS. Mr. Reporter, the statement in the annual report under "Supplies" is very interesting reading:

The objective of the supply program is to provide quality supply support to all programs of the Veterans' Administration and its Federal agency customers and to assure the greatest return for every dollar spent for acquisition, maintenance, and distribution of supplies, equipment, and service. The program renders supply support to the most extensive medical program in the Federal Government. The Veterans' Administration operates two-thirds of the hospital beds controlled by the Federal Government within the United States, including the military. In addition, supply service and support is furnished to the other programs in regional offices and insurance centers, area medical offices, outpatient clinics throughout the United States, the Republic of the Philippines, and the Commonwealth of Puerto Rico. The Veterans' Administration prepared the Federal supply schedule for drug items in connection with its responsibility for the procurement—

It lists a great deal of drugs. Then this goes on to say that:

During the year, 236 new standards covering mostly medical and surgical equipment were published and standards for quarters furniture were revised.

This is an interesting item here.

Through cooperation with the Commodity Credit Corporation, the Veterans' Administration continues to utilize surplus dairy products. The utilization of surplus whole milk increased from 4 million pounds in fiscal year 1961 to 4.1 million pounds in 1962.

Then in the supply program you point out:

Participation in the small business program continued. In fiscal year 1962, 51.4 percent of the dollar volume of supplies and equipment were purchased from small business firms. Construction awards, including site and design contracts, amounted to $58.4 million in fiscal year 1962; 51 percent of the total value of these awards went to small business.

You give some breakdown.

I recommend that this be included in the record, pages 153, 154, and 155.

Mr. GLEASON. And part of 156.

Mr. EVINS. The Administrator wishes to include 156 down to automatic data processing.

Mr. GLEASON. Right.

(The material referred to follows:)

SUPPLY

The objective of the supply program is to provide quality supply support to all programs in the Veterans' Administration and its Federal agency customers and to assure the greatest return for every dollar spent for the acquisition, maintenance, and distribution of supplies, equipment, and services.

This program renders supply support to the most extensive medical program in the Federal Government. The Veteran's Administration operates two-thirds of the hospital beds controlled by the Federal Government within the United States, including the military. In addition, supply service and support is furnished to the other programs in regional offices, insurance centers, area medical offices, and outpatient clinics throughout the United States, the Republic of the Philippines, and the Commonwealth of Puerto Rico.

The Veterans' Administration prepared the Federal supply schedule for drug items in connection with its responsibilities for the procurement and distribution of drugs, biologicals, official reagents, and certain chemicals required by Federal civilian agencies. This includes the establishment of contracts and the issuance of the contract schedule.

The discontinuance of the Denver, Colo., supply electric accounting machine (EAM) activities, October 1, 1961, completed the project of consolidating all former 22 central EAM stations into 3 data-processing divisions at VA supply depots. These divisions are now providing supply EAM service to stations in their respective depot distribution area, except for Los Angeles. Los Angeles was excluded from the consolidation to participate in a test of the 1401 computer application to all programs at that station.

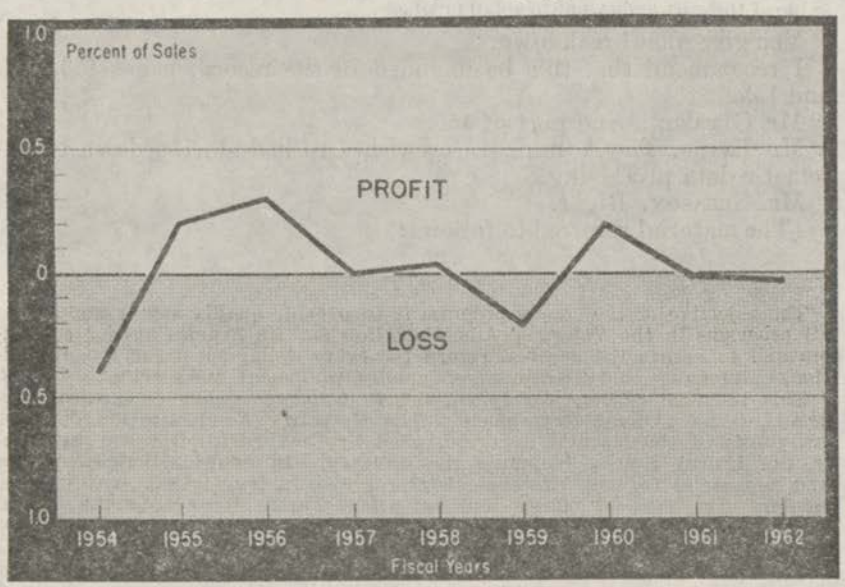
The equipment use standards program continued to receive emphasis. This program has as its goal the assurance that this agency's equipment investment is in balance with its needs. Standards for approximately 90 percent of the program have been completed. During the year, 236 new standards, covering mostly medical and surgical equipment, were published and standards for quarters furniture were revised. Additionally, 170 standards covering general classes of equipment have been developed and are being coordinated prior to publication.

In coordination with the Bureau of the Budget, the Veterans' Administration developed equipment replacement criteria based on replacement and use standards. Field installations replacement needs can more accurately be assessed through the application of common criteria. The criteria were approved by the Bureau of the Budget and used in support of the fiscal year 1963 equipment budget.

Efforts were continued during fiscal year 1962 toward achieving greater economies through redistribution and utilization of personal property. Of the total usable personal property determined to be excess by field stations, approximately $1.1 million, or 43 percent, was utilized within the Veterans' Administration through redistribution. Approximately $3.3 million of excess property was acquired from other Federal agencies.

Management of the agencywide supply fund continued throughout the ninth year on a break-even basis. The objective to operate the supply fund without profit or loss was achieved in fiscal year 1962 within six one-hundredths of 1 percent. The value of supplies and equipment provided using programs totaled $164.3 million, an increase of 8 percent over the previous year. Supply fund inventory investment on June 30, 1962, was $34.2 million.

SUPPLY FUND PROFIT OR LOSS



On July 1, 1961, the VA supply fund assumed the financing of supply depot operating expenses which were formerly charged to the appropriation, "Maintenance and Operations of Veteran's Administration Supply Depots." The three supply depots maintained a high quality of service during fiscal year 1962, as well

as making economical distribution of supply items to Veterans' Administration and other agency activities. Ninety-one percent of all outbound tonnage moved in full carload or truckload lots, assuring economy and speed in transportation. Depot sales amounted to $37.4 million, as compared to $36.3 million in fiscal year 1961. Total operating cost of the supply depot system, including administration and centralized procurement, amounted to 7.4 percent of sales for the year. Service and reclamation shops were operated at the supply depots as a part of the maintenance program to extend the useful life of hospital equipment and other personal property.

Through cooperation with the Commodity Credit Corporation, the Veterans' Administration continued to utilize surplus dairy products. The utilization of surplus whole milk increased from 4 million pounds in fiscal year 1961 to 4.1 million pounds in fiscal year 1962. Utilization of surplus butter increased from 2.9 million pounds in fiscal year 1961 to 3.1 million pounds in fiscal year 1962 due to an increase in available surplus.

Participation in the small business program continued. In fiscal year 1962, 51.4 percent of the dollar volume of supplies and equipment were purchased from small business firms. Construction awards, including site and design contracts, amounted to over $58.4 million in fiscal year 1962; 51 percent of the total value of these awards went to small business.

In the supply activities for new construction, major accomplishments during the year included the equipping of the 500-bed replacement hospital at Jackson, Miss., and substantially completing the equipment phase of the new 1,000-bed NP hospital at Brecksville, Ohio. Additional accomplishments include furnishing initial personal property required to activate 30 major modernization projects and 17 minor modernization, improvement, and repairs projects.

Continued attention was given toward improving the supply system in order to acquire needed supplies at lowest cost. For example, in fiscal year 1962, 36 drug items were added to depot stock. These items were previously on Federal supply schedule or local purchase. This action resulted in a net reduction of $568,839 in the costs of these items purchased during the year.

In June 1962, the Veterans' Administration published a policy to its field stations that no contracting officer for the Veterans' Administration shall enter into a contract for funeral and burial services under which the contractor does not provide service for all eligible beneficiaries regardless of race, creed, color, or national origin.

During the year, the Veterans' Administration assumed the General Services Administration's responsibilities for purchasing nonperishable subsistence for civilian agencies. The Veterans' Administration and GSA are jointly developing the nationwide usage pattern for the most economical distribution system for all nonperishable subsistence requirements of civilian agencies.

A program for the recovery of silver from exhausted hypo and X-ray film was developed for agencywide use. An eventual income of $100,000 per year, most of which was formerly lost to the Government, is anticipated.

The Veterans' Administration participated in the Western Space Age Industries Exhibition, San Francisco Cow Palace, April 1962. An exhibit developed by the Veterans' Administration, rated high by manufacturers and suppliers, illustrated the VA supply and equipment needs for its various programs. It achieved its objective of interesting potential suppliers, thereby expanding competition on VA requirements and broadening our own procurement horizons.

SUPPLY FUND PROFIT AND LOSS

Mr. EVINS. I am very much interested in the chart on page 155, showing the supply fund, showing a profit from about 1954 to 1957, and then you just about leveled off, and in 1958 and 1959 you lost. In 1960 you made a profit again. For 1962, you are going in the red.

Mr. GLEASON. About $100,000.

Mr. EVINS. Why are you going in the red again? That is like the President's tax program. You have to go down on the elevator before you can go up. Is that about right?

Mr. MONK. Actually, that is a very small dip in the red. We can come back in the program very easily. Our object here is to break even and have neither a loss nor a profit.

Mr. THOMAS. How much hard-to-sell stock do you have?

Mr. EVINS. Will you answer that, Mr. Cook?

Mr. THOMAS. What do you do with that type stock you accumulate?

Mr. COOK. $35 million in inventory.

Mr. THOMAS. What do you do with it? How do you get rid of it?

Mr. COOK. The using appropriations of the Veterans' Administration, the people who actually use it. We actually collect from them.

Mr. THOMAS. Do you have to go out on the open market to get rid of any of your hard stock?

Mr. COOK. We have not had to do that in years, sir.

Mr. THOMAS. How much inventory are you carrying on your hard stock? Have you any?

Mr. COOK. $35 million.

Mr. MONK. You mean by hard stock——

Mr. THOMAS. Slow moving, will not turn. The agencies do not want any more of it. Pills, for instance. The doctors say we have enough of these pills. We do not want any more. We have another one. What do you do with them? What do you get out of them?

Mr. COOK. We have less than $100,000 of that, Mr. Chairman.

Mr. THOMAS. Not bad. Is that on an annual basis?

Mr. COOK. At any one time, yes, sir.

EQUIPMENT COSTS—SUPPLY PROGRAM

Mr. EVINS. Equipment costs for 1962 were $79,880; for 1963, $140,-210; and for 1964, it is considerably down, $81,460.

Do you wish to comment on that, Mr. Cook?

Mr. COOK. Sir, we made a change in our financial structure. We included the cost of the supply depots in the supply fund. At that time we capitalized equipment into the fund. We wrote into the books the value of all the equipment on hand. That is why 1963 is higher.

Mr. THOMAS. What is that equipment?

Mr. COOK. Warehouse equipment.

Mr. THOMAS. What is it?

Mr. COOK. Fork lifts, tractors, some furniture, office machines in the depots.

Mr. EVINS. Automatic lifts?

Mr. COOK. Yes, sir.

SUPPLY FUND LOSSES

Mr. OSTERTAG. Getting back to the point of the chairman's inquiry about the supplies which are obsolete or for which you have no means of disposal, you tell us, that averages about $100,000 a year.

Mr. COOK. Those items, sir, which we find we no longer have need for because we do not require the item; yes, sir. Wornout equipment is also disposed of in the same way.

Mr. OSTERTAG. There must be some damage, spoilage, and all the necessary things that go with a supply operation. Does that average about $100,000 each year?

Mr. COOK. The damage you spoke of, sir, runs about $200,000 a year.

Mr. OSTERTAG. Over a period of years, your fund is depleted by virtue of that; is it not?

Mr. COOK. No, sir; because we include in this 11 percent we spoke of——

Mr. OSTERTAG. How do you refund your losses?

Mr. GLEASON. By charging this 11 percent or 8 percent.

Mr. OSTERTAG. To the other agencies?

Mr. GLEASON. Yes.

Mr. COOK. To ourselves primarily.

Mr. GLEASON. To ourselves, also. You will note on pages 6–7, Mr. Ostertag, for fiscal year 1964, we do not anticipate a loss on this at all. For the last 2 years we had a loss of $124,703. This year we think we will wind up with $124,703 profit, which will leave a perfect balance.

Mr. THOMAS. Where is your big loss?

Mr. COOK. I think our big loss would be in foodstuffs.

Mr. THOMAS. Have you any appreciable losses in drugs?

Mr. COOK. Some.

Mr. THOMAS. Did you get caught with any of that thalidomide?

Mr. COOK. Not so far as I know. I do not believe we had any.

DEPARTMENT OF VETERANS' BENEFITS

Mr. THOMAS. Gentlemen, let us take a look at the Department of Veterans' Benefits. This general statement is excellent. Let us put in the record the summary on pages 7–2, 3, and 4.

(The pages referred to follow:)

DEPARTMENT OF VETERANS' BENEFITS

ALL APPROPRIATIONS, $4,145,200,000

Summary

The total amount requested for 1964 is $4,145,200,000. This reflects an increase of $385.8 million from fiscal year 1962 and a decrease of $4.7 million from fiscal year 1963.

These requirements may be classified into three major categories: (1) Administrative expenses; (2) grants to the Republic of the Philippines; and (3) veterans direct benefits composed of the following (*a*) compensation, (*b*) pensions, (*c*) education and training, (*d*) special assistance to disabled veterans, and (*e*) other miscellaneous benefits.

The following table summarizes in millions of dollars the actual amounts appropriated for fiscal year 1962, the appropriations for fiscal year 1963 plus estimated supplemental amounts required, and the fiscal year 1964 requirements:

Summary of requirements

[In millions]

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
General operating expenses	$123.4	[1] $120.3	$123.1	+$2.8
Compensation and pensions	3,500.0	[2] 3,874.0	3,921.0	+47.0
Readjustment benefits	135.0	[3] 155.1	[4] 101.1	−54.0
Grants to the Republic of the Philippines	1.0	.5		−.5
Total appropriation estimates	3,759.4	4,149.9	4,145.2	−4.7

[1] Includes $4,500,000 proposed supplemental for Public Law 87–793 costs.
[2] Includes $42,000,000 proposed supplemental.
[3] Includes $63,600,000 proposed supplemental ($3,400,000 for education and training; $900,000 for special assistance to disabled veterans; and $59,300,000 for transfer to loan guarantee revolving fund).
[4] Includes $34,000,000 to be transferred to loan guarantee revolving fund.

The estimated requirements in each of the above appropriation categories are explained and justified in detail in subsequent sections of this submission. In addition, new legislation requirements included in this submission are summarized in the succeeding paragraph.

1. Public Law 87-509, June 28, 1962: Reservists involuntarily released from active duty—provides for payment of disability compensation after recoupment of 75 percent of readjustment pay.

2. Public Law 87-544, July 25, 1962: Limits classes of persons eligible to receive on death of competent veteran, amounts of pension, compensation and retirement pay withheld during hospitalization.

3. Public Law 87-546, July 25, 1962: To permit orphans to study abroad.

4. Public Law 87-556, July 24, 1962: No reduction of pension during hospitalization of veteran with dependents.

5. Public Law 87-591, August 16, 1962: V.R. & E. benefits continued for blind.

6. Public Law 87-610, August 28, 1962: Total rating—blindness of one eye, blindness of other eye after separation—amended to include bilateral kidney involvement.

7. Public Law 87-645, September 7, 1962: To provide increases in rates of disability compensation.

8. Public Law 87-666, September 18, 1962: "Statement of the case" legislation.

9. Public Law 87-674, September 19, 1962: Marriage bill under compensation and pension program.

10. Public Law 87-793, October 11, 1962: Postal Service and Federal Employees Salary Act of 1962.

11. Public Law 87-815, October 15, 1962: Amends section 1502(a) of title 38, United States Code, to provide readjustment benefits for veterans who are in need of vocational rehabilitation on account of a service-connected disability.

12. Public Law 87-825, October 15, 1962: Revises effective date provisions relating to awards.

Mr. THOMAS. For the Department of Veterans' Benefits, the total requested is $4,145,200,000. This reflects an increase of $385.8 million from fiscal year 1962, and a decrease of $4.7 million from fiscal year 1963 (reading):

These requirements may be classified into three major categories: (1) administrative expenses; (2) grants to the Republic of the Philippines; and (3) veterans' direct benefits, composed of the following. Then you have the breakdown of compensation, pensions, education and training, special assistance to disabled veterans, and other miscellaneous benefits.

The table on page 7-2 is quite good. The interesting thing is your footnotes. General operating expense goes up $2.8 million to $123.1 million. Yet the number of employees goes down a little bit. Compensation and pensions goes up $47 million to a total of $3,921 million. Readjustment benefits are down $54 million to $101.1 million. Grants to the Republic of the Philippines is minus $0.5 million. What did you do with the Philippines this year?

Mr. MONK. The law expires, Mr. Chairman, as of June 30. We are in for a 5-year extension, but we could not budget it.

Mr. THOMAS. There is no doubt the legislation will be continued. Then you will have to come in for a deficiency for 1964.

Mr. MONK. Yes, sir.

Mr. EVINS. I might observe that a few years ago they kept these items separately, and then consolidated them in the one Department of Veterans' Benefits. I notice the VA does not follow that same pattern in the content of its annual report.

Mr. GLEASON. That was for last year, Mr. Evins. This year we hope to have it different.

Mr. DRIVER. They are separated later in the budget.

Mr. EVINS. You are not consistent in your documents.
Mr. DRIVER. They are separated later on.

ANTICIPATED SUPPLEMENTALS

Mr. THOMAS. Let us look at the supplementals, gentlemen. Looking at the footnotes, under general operating expenses you are coming in for a $4.5 million supplemental. Under compensation and pensions, there is a proposed supplemental of $42 million. Footnote 3 is readjustment benefits; includes $63.6 million proposed supplemental—$3.4 million for education and training ,$900,000 for special assistance to disabled veterans, and $59.3 million for transfer to loan guarantee revolving fund. Is that all for the loan guarantee fund?

Footnote 4 includes $34 million to be transferred to loan guarantee revolving fund.

Mr. GLEASON. That is for fiscal 1964, Mr. Chairman. You read $63 million for the proposed supplemental for this fiscal year.

Mr. THOMAS. These two supplementals are all you will have in the revolving fund?

Mr. MONK. We would not guarantee that, sir.

Mr. GLEASON. This will be the great preponderance.

Mr. THOMAS. Are we not short another $50 million or $60 million?

Mr. MONK. It is possible.

SALE OF MORTGAGES

Mr. BROWNSTEIN. It depends on how successful we are in selling our mortgages. In our 1964 submission we have an estimate of $147 million in sales.

Mr. EVINS. You had better get on the ball.

Mr. THOMAS. If you do not sell them, then what?

Mr. BROWNSTEIN. We will have to come back to see you.

Mr. THOMAS. For how much?

Mr. BROWNSTEIN. Whatever the difference is between what we sell and the $147 million.

Mr. THOMAS. You have a big wide figure down at the bottom which is frightening.

Mr. GLEASON. This is a sort of unknown to us, Mr. Chairman.

Mr. THOMAS. Yes.

Mr. JONAS. Have you talked to Mr. Baughman over at the Housing and Home Finance Agency? He has been in this for a good many years.

Mr. BROWNSTEIN. Yes, sir. We have talked with him on this, Mr. Jonas. We have done pretty well. We are going to sell better than $150 million this year.

Mr. JONAS. At what? Par?

Mr. BROWNSTEIN. Actually, we are making about half a million dollars premium on the sales that we are selling this year.

Mr. JONAS. Are they all seasoned mortgages or current mortgages?

Mr. BROWNSTEIN. We will not sell any that are less than 6 months old. Most of them are seasoned. Now you are getting to the real heart of this thing. The problem is that we are selling them in the areas where there are investors who are interested in buying them and where the money is, and this brings up the question of how successful we will be in disposing of the additional ones.

Mr. JONAS. All of them are recourse paper, are they not?

Mr. BROWNSTEIN. Yes, sir.

Mr. JONAS. You do not know whether you have really sold anything or not.

Mr. BROWNSTEIN. Some of it will come home. There is no question about it.

Mr. DRIVER. It is for the year, anyway.

Mr. EVINS. This is the first of the year, the very beginning of the budget consideration. Why can we not consolidate some of the supplementals into the regular bill?

Mr. THOMAS. Perhaps we could.

Gentlemen, let us take a look at the new laws. You have looked over these on 7–3 and 4.

GENERAL OPERATING EXPENSES, DEPARTMENT OF VETERANS' BENEFITS

Now let us go to "General operating expenses," $123,120,000. This is up $2.8 million over 1963. Put 8–1 through 8–8 in the record.

(The pages referred to follow:)

DEPARTMENT OF VETERANS' BENEFITS

GENERAL OPERATING EXPENSES, $123,128,000

General statement

The Department of Veterans' Benefits is responsible for providing all of the direct benefits, except medical and insurance, to eligible veterans and their dependents as authorized by law. The basic functions are as follows:

1. The adjudication of veterans' and dependents' claims for compensation, pension, and guardianship and fiduciary service to helpless or incompetent veterans and minor dependents.

2. The administrative operations in connection with vocational rehabilitation of disabled veterans in training under Public Law 16, 78th Congress, as amended; the education and training of Korean veterans under the Veterans Readjustment Assistance Act, Public Law 550, 82d Congress, as amended; the education of war orphans under the provisions of Public Law 634, 84th Congress, as amended; and Public Law 87–815 (extension of vocational rehabilitation benefits to peacetime veterans).

3. The issuance of certificates of loan guaranty or insurance, servicing of loans reported in default, payment of claims of lenders on defaulted loans, acquisition, management, and disposal of property when necessary to protect the Government's interest, making of direct loans to veterans in certain areas, and providing assistance to specified paraplegic veterans in acquiring specially adapted housing.

4. The dissemination of information to veterans and/or their dependents and assistance in the preparation, development, submission, and presentation of claims for benefits under laws administered by the Veterans' Administration.

5. The related service activities of finance, administrative, and personnel activities are provided in support of the above functions. In many instances these activities also service other VA departments; in some cases the Department of Veterans' Benefits receives such services from other departments. The costs of such "common services" are distributed among the departments involved in accordance with established criteria, and are reflected in this submission as "common service adjustments."

The conversion of 4,500,000 compensation and pension accounts and related statistical records to an automatic data-processing system has been completed. Major refinements are now underway to develop a system of cyclical payments in which checks will be distributed evenly throughout the month. ADP system studies currently in process are (1) the refinement of management and statistical reporting to make the required information more timely, accurate, and meaningful; and (2) to improve loan-guaranty accounting techniques, thereby providing better service and management control, and achieve operating economies. Future ADP studies to be undertaken are in the area of income questionnaire processing and budget preparation and allotment control.

The actual cost in fiscal year 1962 was $123,407,630. Estimated requirements for fiscal year 1963 and fiscal year 1964 are $120,299,000 and $123,128,000, respectively, including $4,472,000 and $7,822,000 for Public Law 87–793 costs. Our requirements for fiscal year 1964 are premised only on legislation currently enacted. The cost of housekeeping and engineering services previously budgeted as a reimbursable item to D.M. and S. is deleted in fiscal years 1963 and 1964 and will be justified on a agencywide basis by the Department of Medicine and Surgery.

Summary of requirements by major category

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment	16,084	15,506	15,169	−337
Personnel compensation	$101,059,734	$102,760,361	$105,276,894	+$2,816,533
Personnel benefits	7,706,989	7,855,739	8,121,106	+265,367
Total personal services and benefits	108,766,723	110,316,100	113,398,000	+3,081,900
Public Law 87-793 pay increase		(4,517,000)	(7,855,000)	(+3,338,000)
Miscellaneous operating cost	8,426,906	8,285,600	8,354,115	+68,515
Equipment	3,357,519	715,100	338,000	−377,100
Travel employee (0.007)	2,144,973	2,189,000	2,099,285	−89,715
Vocational rehabilitation and education other objects	3,270,016	3,233,000	3,456,000	+223,000
Total cost	125,966,137	124,738,800	127,645,400	+2,906,600
Common service adjustment	−2,558,507	−4,439,800	−4,517,400	−77,600
Net cost	123,407,630	120,299,000	123,128,000	+2,829,000
Public Law 87-793 costs		(4,472,000)	(7,822,000)	(+3,350,000)

SUMMARY OF REQUIREMENTS BY ACTIVITY

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Central office	$9,377,671	$7,874,900	$8,358,500	+$483,600
Field:				
Manager	3,248,263	3,420,300	3,560,200	+139,900
Chief attorney	12,157,716	12,834,000	12,899,000	+65,000
Contact	9,005,611	8,119,800	7,543,900	−575,900
Compensation and pension	29,982,912	30,739,000	33,109,000	+2,370,000
Vocational rehabilitation and education	10,003,996	9,085,000	9,037,000	−48,000
Loan guarantee	18,275,820	20,223,000	20,634,000	+411,000
Office services	32,106,661	31,155,700	31,211,300	+55,600
Data processing center	1,807,487	1,287,100	1,292,500	+5,400
Total, Department of Veterans' Benefits jurisdiction	125,966,137	124,738,800	127,645,400	+2,906,600
Common service adjustment	−2,558,507	−4,439,800	−4,517,400	−77,600
Net cost	123,407,630	120,299,000	123,128,000	+2,829,000
Public Law 87-793 costs		(4,472,000)	(7,822,000)	(+3,350,000)

COMPARATIVE SUMMARY OF REQUIREMENTS DETAILED OBJECT AND SUB-OBJECT OF EXPENDITURES

Summary of employment requirements by activity

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment:				
Central Office	554	550	540	−10
Manager	310	309	309	
Chief Attorney	1,555	1,570	1,510	−60
Contact	1,244	1,047	937	−110
Compensation and Pension	3,926	3,835	3,922	+87
Vocational Rehabilitation and Education	802	651	580	−71
Loan Guaranty	2,559	2,719	2,650	−69
Office Services	4,992	4,675	4,576	−99
Data Processing Center	142	150	145	−5
Total average employment	16,084	15,506	15,169	−337
Cost—Personnel compensation:				
Central Office	$4,972,648	$5,218,450	$5,484,790	+$266,340
Manager	2,885,560	3,055,700	3,172,247	+116,547
Chief Attorney	10,609,421	11,207,000	11,229,000	+22,000
Contact	8,157,119	7,316,715	6,844,870	−471,845
Compensation and Pension	27,247,492	27,854,000	30,083,000	+2,229,000
Vocational Rehabilitation and Education	5,989,576	5,175,000	4,916,000	−259,000
Loan Guaranty	15,679,132	17,388,000	17,753,000	+365,000
Office Services	24,682,163	24,302,146	24,820,470	+518,324
Data Processing Center	836,623	943,350	973,517	+30,167
Total personnel compensation	101,059,734	102,460,361	105,276,894	+2,816,533
Personnel benefits	7,706,989	7,855,739	8,121,106	+265,367
Total personnel compensation and benefits	108,766,723	110,316,100	113,398,000	+3,081,900
Public Law 87-793 pay increase		(4,517,000)	(7,855,000)	(+3,338,000)
Travel and transportation of persons:				
Employee	2,144,973	2,189,000	2,099,285	−89,715
Local	187,368	187,720	187,670	−50
Beneficiary (Vocational rehabilitation and education)	240,188	326,000	360,000	+34,000
Hire of GSA motor vehicles (passenger)	188,484	318,280	301,245	−17,035
Total	2,761,013	3,021,000	2,948,200	−72,800
Transportation of things:				
Other transportation of things	35,761	17,600	16,000	−1,600
Shipment of household goods	136,329	175,100	155,500	−19,600
Parcel post reimbursement	75,194	81,000	81,000	
Hire of GSA motor vehicles (trucks)	1,181	7,400	7,400	
Total	248,465	281,100	259,900	−21,200
Rents, communications, and utilities:				
Rental of real property	2,642	1,384	1,384	
Rental of equipment	1,609,787	1,009,696	962,206	−47,490
Utilities	1,077			
Telephone and telegraph	1,124,827	1,138,990	1,138,990	
Mail	976,000	1,102,230	1,237,230	+135,000
Total	3,714,333	3,252,300	3,339,810	+87,510
Printing and reproduction	977,422	1,031,000	985,000	−46,000
Other services:				
Repairs of furniture and equipment	322,833	369,210	348,200	−21,010
Miscellaneous contract service	1,264,828	1,367,490	1,462,190	+94,700
Handling charges (vocational rehabilitation and education)	22,277	37,000	37,000	
Counseling fees (vocational rehabilitation and education)	418,849	939,000	1,584,000	+645,000
Reporting allowance (vocational rehabilitation and education)	1,502,399	931,000	575,000	−356,000
Representation allowance	433	500	500	
Official residence allowance	877	1,000	1,000	
Total	3,532,496	3,645,200	4,007,890	+362,690

Summary of employment requirements by activity—Continued

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Supplies and materials:				
Office supplies and materials	$796,020	$785,385	$755,385	−$30,000
Books	57,239	55,760	54,215	−1,545
Operating maintenance supplies	66,590	10,855	9,000	−1,855
Flags	602,014	625,000	650,000	+25,000
Total	1,521,863	1,477,000	1,468,600	−8,400
Equipment: Furniture, furnishings, and fixtures	3,357,519	715,100	338,000	−377,100
Grants to States (vocational rehabilitation and education)	1,086,303	1,000,000	900,000	−100,000
Total cost	125,966,137	124,738,800	127,645,400	+2,906,600
Common services adjustment	−2,558,507	−4,439,800	−4,517,400	−77,600
Net cost	123,407,630	120,299,000	123,128,000	+2,829,000
Public Law 87-793 costs		(4,472,000)	(7,822,000)	(+3,350,000)

Summary of major workloads

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
1. Chief Attorney:			
Total wards (end of year)	510,973	560,000	590,000
Accounts audited	394,798	405,000	339,000
Field examinations completed	173,452	165,000	189,600
2. Contact:			
Personal interviews	3,381,508	2,852,000	2,573,000
Telephone interviews	3,259,080	2,642,000	2,213,000
Applications and forms	2,026,842	1,657,000	1,477,000
Correspondence prepared	961,906	789,000	691,000
Counter interviews	491,941	295,000	247,000
3. Compensation and Pension:			
New claims, total	327,966	331,000	334,000
Disability	195,110	192,000	188,000
Death	132,856	139,000	146,000
Reopened claims, total	410,211	415,000	408,000
Disability	365,088	387,000	379,000
Death	45,123	28,000	29,000
Dependency and income claims, total	520,584	550,000	639,480
Disability	317,556	333,500	390,080
Death	203,028	216,500	249,400
Insurance claims	38,060	40,000	42,000
Burial claims	209,945	221,000	233,000
4. Vocational Rehabilitation and Education:			
Average number trainees:			
Vocational rehabilitation	4,958	5,200	8,000
Readjustment training	96,456	52,000	28,000
War orphans	12,863	15,000	13,000
Cases of counseling:			
Veterans' Administration	25,228	21,000	15,000
Fee basis	10,226	19,500	33,000
5. Loan Guarantee:			
Appraisal requests received (units)	335,788	335,000	300,000
GI loan applications received	196,440	215,000	198,000
GI loans closed	166,178	184,000	167,000
Direct loan applications received	21,470	26,300	25,000
Direct loans closed and disbursed	19,699	21,500	20,000
Average number of loans owned	223,290	235,200	250,000
Paraplegic grants disbursed	402	425	400
Defaults reported	107,192	105,000	101,500
Claims vouchered for payment	19,154	19,600	16,850
Property acquisitions	21,165	24,400	19,900
6. Finance: Portfolio accounts	2,605,454	2,810,600	2,940,000
7. Administrative:			
Incoming mail	52,161,000	50,231,000	49,880,000
Folder lookups	32,381,960	31,394,760	31,390,000

Mr. THOMAS. Let me read the paragraph at the bottom of 8–2:

The actual cost in fiscal year 1962 was $123,407,630. Estimated requirements for fiscal year 1963 and fiscal year 1964 are $120,299,000 and $123,128,000 * * *.

It is down just a little, is it not?

Our requirements for fiscal year 1964 are premised only on legislation currently enacted. The cost of housekeeping and engineering services previously budgeted as a reimbursable item to D.M. & S. is deleted in fiscal years 1963 and 1964 and will be justified on an agencywide basis by the Department of Medicine and Surgery.

Let us take a look at the figures on 8–3 and 4. This shows the personnel costs. Total personal services and benefits, $113,398,000 for 1964, an increase of $3,081,900. Miscellaneous operating cost, equipment, employee travel, vocational rehabilitation, and other objects, total about $14 million. You made an adjustment and it all adds to $2,829,000 over 1962.

Then you add the pay act costs.

Mr. GLEASON. I am sure that is included, Mr. Chairman. Is that not right, Mr. Shytle? The $3,350,000 is included in the net cost.

Mr. SHYTLE. Yes, sir.

Mr. THOMAS. What is the net cost?

Mr. GLEASON. $2,829,000.

Mr. THOMAS. You break it down by activities. Here is the central office with an increase of $483,600, a total of $8,358,500.

The personnel table is on the next page. In the central office you have 540, which is 10 less than you have this year, but the cost goes up $483,600. Is that correct?

Now we go to the field. What do you mean by "field"?

Mr. BROWNSTEIN. The 67 regional offices.

Mr. THOMAS. You show the manager, chief attorney, contact, compensation and pension, vocational rehabilitation, loan guarantee, office services, and data processing. We have quite a job, have we not?

EMPLOYMENT BY PROGRAM

Let us take a look at page 8–4. Total employment in the central office goes from 550 to 540, a reduction of 10. How many managers do you have?

Mr. BROWNSTEIN. One in each office—67. This is his immediate office.

Mr. THOMAS. I understand. The figure remains the same, 309, for 1963 and 1964 for your 67 managers.

Chief attorney, 1,570 in 1963 against 1,510 for next year, a reduction of 60. The chief counsel had only what? One hundred?

Mr. MONK. 104.

Mr. THOMAS. Contact goes down 110 to a figure of 937, against 1,047 in 1963. How many offices did you close this year?

Mr. BROWNSTEIN. Twenty-six.

Mr. GLEASON. Twenty-six this year.

Mr. THOMAS. Compensation and pension goes up 87, to 3,922 in 1964 against 3,835 now.

What about all that automatic processing equipment we have, Mr. Monk? We have a big installation out here at Hines, and yet personnel is going up.

Mr. GLEASON. More people are coming in for pensions now, Mr. Chairman.

Mr. THOMAS. I looked for that figure and never could find it for fresh, brandnew cases. Be digging it up for me. It may be in there, but I could not find it.

"STATEMENT OF CASE" REQUIREMENTS

Mr. BROWNSTEIN. The reason we are in here for an increase, Mr. Chairman, is because of the law that was passed at the last session which requires the preparation of the statement of the case in every instance where——

Mr. THOMAS. Mr. Brownstein, we went into that yesterday. We do not mind having you talk. We like you to talk. But did we not agree you put about 100 employees in there? Every time the rating board makes a decision, they send everybody a letter——

Mr. BROWNSTEIN. A form letter, Mr. Chairman.

Mr. THOMAS (continuing). With six copies. Nobody likes it, so they write back again. The point I am making is that you cannot possibly do any more work than you are already doing, so why do you need any more people?

Mr. BROWNSTEIN. Because it will result in the necessity of the preparation of a totally different type document here which will have to be——

Mr. THOMAS. The size of the paper may be different, but the information is the same, is it not?

Mr. BROWNSTEIN. No, sir. We now handle it by a form letter. Now when the man comes in and expresses dissatisfaction, before he can file an appeal with Mr. Stancil we will have to give him a statement of the case and prepare for him a statement of the facts, a recitation of the law, and the basis on which his rating was made. Then, in order for him to take an appeal to the Board of Veterans Appeals, he must take issue with either the facts or the law on which the initial rating action was based. But he must be specific. This is going to result in additional work in a substantial amount. We think, Mr. Chairman, this 87 is a conservative estimate.

Mr. THOMAS. I was afraid you were going to say that, Mr. Brownstein.

Mr. BROWNSTEIN. I would not want to disappoint you, sir.

Mr. JONAS. As a matter of fact, how can you handle that on a form?

Mr. BROWNSTEIN. It will not be on a form, Mr. Jonas.

Mr. JONAS. You will have to have some lawyer dictate a statement of the case to some stenographer.

Mr. BROWNSTEIN. Yes, sir; in every case this will have to be done, and we estimate there will be about 40,000 of these a year.

(Off the record.)

Mr. GLEASON. Mr. Chairman, I do not want to transfer anything else in the Veterans' Administration for a little while, if you do not mind.

Mr. JONAS. There is not any doubt about the fact that this will complicate your operation.

Mr. BROWNSTEIN. That is correct, sir.

Mr. THOMAS. In vocational rehabilitation, you go off 71—651 to 580. Loan guaranty, minus 69—from 2,719 to 2,650. Office services, minus 99—from 4,675 to 4,576.

REDUCTION IN NUMBER OF EMPLOYEES

That is a lot of people. The total is 15,169, which represents a reduction of 337 from last year, 15,506.

If you were to wrap up all these activities, what were they 6 or 7 years ago, personnelwise?

Mr. DRIVER. About 25,000.

Mr. SHYTLE. The Department of Veterans' Benefits in 1957 was 20,606, and in 1964 it is 14,518.

Mr. THOMAS. What was that figure?

Mr. SHYTLE. 14,518, the net employment.

Mr. THOMAS. What do you mean by "net"? I have in my book 15,169.

Mr. SHYTLE. We had interservice adjustments of 651, common services between the Departments of Veterans' Benefits and Insurance.

Mr. THOMAS. That is quite a record in itself, is it not? What unit in the group shows the greatest reduction?

Mr. BROWNSTEIN. Education.

Mr. THOMAS. How did that come about?

Mr. BROWNSTEIN. Of course, there has been a sharp contraction in the training load. World War II veterans are no longer eligible.

Mr. THOMAS. That is a matter of operation of law. We cannot take too much credit for that. Where can we take a little credit?

Mr. BROWNSTEIN. There is a large reduction in office services, and there we get the real benefit of the automation you mentioned, Mr. Chairman, and also in finance.

Mr. GLEASON. And our contact service, too. Closing those contact offices certainly cuts down.

OTHER OBJECT COSTS

Mr. THOMAS. This is a good table. Under "Travel and transportation of things," employee travel is off $89,715; $2,099,285 against $2,189,000 in 1963. Local transportation, $187,720 last year against $187,670 for 1964, minus $50. How did you arrive at that $50? You did a little hard figuring to get that. That is pretty close.

What do you mean by local transportation?

Mr. MONK. Streetcar fares and taxis within the metropolitan area where the office is located.

Mr. THOMAS. Does anybody ever ride the streetcar any more?

Mr. MONK. Yes, sir. This is for all of the offices.

Mr. GLEASON. This is for the entire country, Mr. Chairman.

Mr. THOMAS. What about private automobiles?

Mr. MONK. No, sir; that would be in the employee travel.

Mr. THOMAS. You show hire of GSA motor vehicles, $318,280 last year; $301,245 for 1964, a reduction of $17,035.

Transportation of things, $259,900 for 1964, a reduction of $21,200 from last year. Parcel post is part of that, $81,000 this year as against $81,000 this year. You have trucks from GSA, $7,400, the same as this year. That is a guess figure, is it not?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Your big item is shipment of household goods, $155,500 for 1964 against $175,100 this year. What does this average? Under the law, you pay an employee when he has a change in duty station. Is there any limitation on that amount, or is it the actual cost?

Mr. MONK. There is a limitation on the poundage, and then it is the commuted rate computed by the General Accounting Office.

Mr. THOMAS. What is the limitation on the poundage?

Mr. MONK. 7,000 pounds.

Mr. THOMAS. How does that stack up with the military?

Mr. GLEASON. General, have you any idea on that?

Mr. MCANSH. The Veterans' Administration allowance is lower.

Mr. THOMAS. Do you have any crating or packaging in here?

Mr. MONK. No, sir; the employee has to arrange for it and pay for it. But in the commuted rate there is an allowance for packing and crating.

Mr. THOMAS. When an employee moves, say an average family of five, what is the cost?

Mr. BROWNSTEIN. Mr. Chairman, we budgeted this year for 11 people who will rotate on the Manila assignment.

Mr. THOMAS. That is written all over, $4,000 apiece. Let us close that office over there.

Mr. GLEASON. We cannot close that office.

Mr. THOMAS. How many are you going to bring home this year?

Mr. BROWNSTEIN. Eleven.

Mr. THOMAS. How many will you send over?

Mr. BROWNSTEIN. The same number.

Mr. THOMAS. You have to pay freight over there for 22 people. What will it cost you?

Mr. BROWNSTEIN. That will probably run close to $90,000.

Mr. OSTERTAG. Is this on annual basis?

Mr. GLEASON. No, sir; every 4 years.

Mr. BROWNSTEIN. Two years, then home leave, and then 2 more years.

Mr. GLEASON. It is pretty hard to ask somebody to stay longer than 4 years, Mr. Ostertag, away from their own country.

Mr. JONAS. On the home leave, what do you do pay them a lump sum whether they come or not?

Mr. GLEASON. No, sir; only if they come home.

Mr. JONAS. If they elect not to come, you do not pay them the money?

Mr. GLEASON. No, sir.

Mr. JONAS. They do some of that in the military departments.

Mr. DRIVER. We urge them to come.

Mr. THOMAS. You go by the old general statute, American transportation and the nearest route?

Mr. GLEASON. Yes, sir. If they come by ship, it has to be an American ship or air. Most of them come by Northwest Airlines because that is more direct.

Mr. THOMAS. You have a lot of money here for rents, communications, and utilities. Rental of real property. What property do you rent?

Mr. MONK. We rent very little property in here. These would be offices for maybe a vocational counselor, maybe a contact office. We pay very little rent. Most of the rent is furnished.

RENTAL OF EQUIPMENT VERSUS PURCHASE

Mr. THOMAS. Under rental of equipment—I thought we were buying all the equipment. In 1963 you will spend $1,009,696, and $962,206 next year for rental. I thought we decided it was cheaper to buy it outright.

Mr. GLEASON. That is true, but we did not have all the money to do it.

Mr. THOMAS. How much do you figure you saved? You gave some figures in your general statement.

Mr. DRIVER. $1,600,000 a year.

Mr. BROWNSTEIN. We will pay for it in about 3½ years.

Mr. THOMAS. Would it not be better to go on and buy this equipment now that you need, that you are now paying a million dollars rent for? What would it cost you to buy it?

Mr. DRIVER. $5.5 million.

Mr. THOMAS. In 3 years it would not cost you too much more to go on and buy it.

Mr. BROWNSTEIN. As we get into automation, Mr. Chairman, we may find we will not be using this particular equipment.

Mr. MONK. This is basically electric accounting equipment, not big computers—punchcards.

Mr. GLEASON. National Cash Register, IBM.

Mr. THOMAS. That is standard equipment.

Mr. MONK. Yes, sir.

Mr. THOMAS. You are still renting it.

Mr. MONK. We are renting it.

Mr. THOMAS. Is it cheaper to buy it or rent it?

Mr. MONK. We have made a study of this, and we have concluded that it would be cheaper to buy about half of it.

Mr. THOMAS. How long would it require for it to pay for itself?

Mr. GLEASON. Three and a half years to five years.

Mr. OSTERTAG. But you are not doing that now; are you?

Mr. MONK. No, sir.

Mr. THOMAS. How much more money would it take to buy it? You have a million dollars for rent.

Mr. MONK. We figure that which it would be profitable to buy rather than rent, where we foresee continued use, would be about $8 million.

Mr. DRIVER. But before we get to deciding whether to purchase this equipment, Mr. Chairman, we want to consolidate all of it and see

whether we can run up the usage and how much we could turn back, rather than buy equipment that we would be using only part of the time.

Mr. THOMAS. When are you going to do just that?

Mr. DRIVER. We have just started that.

Mr. GLEASON. We have just started the new Data Management Department as of last Wednesday, Mr. Chairman.

Mr. DRIVER. All of this equipment will come under its jurisdiction. We know we can release a lot of it immediately by using it across departmental lines.

Mr. THOMAS. Who made the decision that you buy what you did last year rather than rent it? The same group?

Mr. DRIVER. No, sir. The operation that was on that equipment was so large that we knew we could support it.

Mr. THOMAS. If you decided on one group of equipment, why can you not decide on another?

Mr. DRIVER. The groups we decided on were very large pieces of high-speed electronic equipment.

Mr. GLEASON. We knew we could utilize it for the next 4 or 5 or 6 years. Some of this other equipment, the companies may have newer types out within the next year or two.

Mr. DRIVER. And this is scattered over a large number of installations, whereas the other is centralized.

Mr. OSTERTAG. This item is rental.

Mr. DRIVER. This is rental, yes, sir.

PURCHASE OF EQUIPMENT

Mr. OSTERTAG. Where is your purchase item?

Mr. GLEASON. I would like to refer to the statement I made yesterday, Mr. Ostertag, that we were able to purchase computer equipment costing $2.8 million from available fiscal year 1962 funds that we had left over.

Mr. THOMAS. There is no purchase money in this budget?

Mr. GLEASON. By tightening the belt even further, we have been able to purchase additional computer equipment costing $3 million in the present fiscal year.

Mr. OSTERTAG. In other words, the purchase does not show up here because you are purchasing out of 1962 funds.

Mr. MONK. Mr. Ostertag, on the next page, on the first line, the first column, is the computer purchase under equipment, in the $3,357,000.

Mr. DRIVER. That is one of them. In this fiscal year we bought another.

Mr. MONK. That will be in the Insurance Department.

Mr. EVINS. When you purchase this equipment, Mr. Administrator, I trust you do not have to enter into a contract to pay the people roy alties for repair and supervision—monthly, quarterly, or annual rental.

Mr. GLEASON. We have contracts with the companies, Mr. Evins.

Mr. EVINS. This is buying the equipment and then putting them on the payrolls to keep on paying them to come and look after it every now and then. I dislike that very much.

Mr. MONK. We are exploring with GSA the possibility of doing our own maintenance, but as of now we have a contract with the company for maintenance.

Mr. EVINS. If you buy my hammer, you have to buy my nails?

Mr. MONK. No, sir.

Mr. DRIVER. No one else really holds himself out as able to service this equipment.

Mr. EVINS. That is bad when you put machine manufacturers on your payroll. You might as well just rent.

Mr. BROWNSTEIN. Even paying the maintenance, Mr. Evins, there is a tremendous savings.

Mr. EVINS. This is a practice I personally do not like.

Mr. THOMAS. If you were to buy all the equipment you are using, could you come up with the figure of $8 million?

Mr. MONK. The figure of $8 million was that which we so far in our study believe we could justify buying rather than renting. We have a total of about $15 million worth of equipment, but the rest of it we are not sure that we will continue to use long enough that it would be profitable.

Mr. EVINS. How much did you say you purchased in the last year?

Mr. GLEASON. $5.8 million.

Mr. EVINS. How much did you have to contract for to maintain it and keep it in repair? How much will that cost you after you have brought it?

Mr. DRIVER. $46,000 for each computer. Twice times $46,000—$92,000.

Mr. GLEASON. $92,000.

Mr. EVINS. $92,000 a year to have them check ths machinery.

Mr. GLEASON. When it breaks down, Mr. Evins, we want that thing to roll just as fast as it can.

Mr. DRIVER. They take it over for 2 hours every day and check it.

Mr. BROWNSTEIN. There is a lot of preventive maintenance on these.

Mr. EVINS. It is entirely too costly.

Mr. GLEASON. We cannot get it any cheaper, Mr. Evins.

Mr. EVINS. I believe GSA——

Mr. GLEASON. We are working with GSA.

Mr. EVINS (continuing). Could train your mechanics. After you buy $5 million worth of equipment, you should not have to pay $92,000 for maintenance. It is too much.

Mr. THOMAS. Anyway, you cut down your rental. You and Mr. Evins had better get together and talk this thing over and see what you ought to do.

Mr. GLEASON. That is only a 2 percent rental, Mr. Evins.

COMMUNICATION COSTS

Mr. THOMAS. Telephone and telegraph, $1,138,990 for 1963, and you come up with the exact same figure for 1964. How did you figure that out?

You have a little increase in mail, $135,000. That is due to the rate increase, I guess.

Could this total rent and communications figure of $3,339,810 be reduced? What do you have committed for the first 6 months on your 1963 appropriation?

Mr. SHYTLE. $1,526,000 through December, against $3,252,300 in the 1963 column of the estimate here.

Mr. THOMAS. You have at least $252,000 carryover here.

Mr. MONK. Our mailing costs go up January 1.

Mr. THOMAS. That is a separate item, though, of $135,000.

Mr. SHYTLE. I was giving you a figure against the total, Mr. Chairman. The $3,252,000 is the sum of those items.

Mr. THOMAS. You will have a $252,000 unexpended balance at the end of this year?

Mr. MONK. The mail costs will go up about that much.

Mr. THOMAS. For the whole year, you have only $135,000.

Mr. DRIVER. That was without the increase.

Mr. BROWNSTEIN. That did not include the increase.

Mr. GLEASON. It is a surprising thing——

Mr. THOMAS. I am talking about 1964, which shows an increase of $135,000 for the whole fiscal year.

Mr. GLEASON. That is right, for mail, but getting back to 1963, we are not asking for a supplemental on this particular item.

Mr. THOMAS. It appears to me you have at least $200,000 more than you need in this.

Mr. SHYTLE. The postal rate increase for 1963 is $118,000 increase for the Department of Veterans' Benefits.

PRINTING AND REPRODUCTION—GENERAL OPERATING EXPENSES

Mr. THOMAS. Printing and reproduction, this year $1,031,000 against $985,000 for next year, a reduction of $46,000. What in printing is costing you all this money? It is to the point where you cannot get in your offices for the publications coming in from every Government agency. Nobody reads them. What are you putting out? You have the cost of printing and reproduction. You have handling costs. You have mailing costs.

Mr. BROWNSTEIN. There are forms, form letters, pamphlets——

Mr. THOMAS. The forms that you use. To whom do the form letters go, the veterans?

PUBLICATION OF PAMPHLETS

What about pamphlets?

Mr. BROWNSTEIN. We try to keep the veterans advised on their benefits, Mr. Chairman.

Mr. THOMAS. How many pamphlets do you print?

Mr. BROWNSTEIN. I could not give you an accurate estimate on this.

Mr. THOMAS. You do not mean there are so many you cannot remember them. Who gets them up?

Mr. BROWNSTEIN. We all have a hand in it. For example, a good many veterans could be drawing more benefits under the new pension law that was passed effective July 1, 1960. There has been a lot of discussion on why this has not occurred. We have tried to get the word to them. We have put out several notices to them to tell them that they might be eligible for increased benefits. In the last session, there was a law passed which authorized vocational rehabilitation for peacetime veterans. We got a notice out to all of them that we could identify.

Mr. THOMAS. How many pamphlets do you put out? You can turn out a million mimeographed form letters in an hour at very little cost.

Mr. GLEASON. Would you like to see the pamphlets that we put out?

Mr. THOMAS. Yes.

Mr. GLEASON. We will bring those over tomorrow morning, if it is all right.

Mr. THOMAS. How many are there?

Mr. MONK. Hundreds.

Mr. THOMAS. You have a lot here. You are spending a million dollars on it.

Mr. WYMAN. Suppose one of these fellows wants an increase, do they get it retroactively?

Mr. BROWNSTEIN. No.

Mr. GLEASON. From the time he files.

Mr. JONAS. That is not true of compensation, is it?

Mr. BROWNSTEIN. If he files his compensation claim anywhere within a year of the day he gets his discharge, then he would get it retroactive from the date of his discharge but I was talking about those who elected the new pension law, who had been drawing under the old pension law and might draw greater benefits under the new. They would draw those greater benefits only from the date of their election.

Mr. THOMAS. Who does this printing, the Government Printing Office?

Mr. BROWNSTEIN. Most of it.

Mr. THOMAS. Is this a multigraph operation that you do in your own shop?

Mr. GLEASON. Most would be done by the Government Printing Office.

Mr. THOMAS. You have other organizations; dozens of American Legion posts and Veterans of Foreign Wars and yet you are spending $1 million here——

Mr. GLEASON. If we don't get these people these pamphlets none of the people of whom we speak will know the benefit that they can advise the veteran about.

Mr. EVINS. I would rather see the veterans advised than pay the machine companies a royalty.

Mr. BROWNSTEIN. A lot of this too, Mr. Chairman, goes for changes in regulations that have to be published.

CONTRACTUAL SERVICES

Mr. THOMAS. You have repair of furniture and equipment, $369,000, a reduction of $21,000 this year, to $348,000.

Miscellaneous contract services, $1.3 million. It goes up $94,700 this year to $1,462,000. What is that item?

Mr. BROWNSTEIN. The major part of this contractual item, $900,000 is in the loan guarantee program. This is for fee appraisals, subdivision analyses, land planning.

Mr. THOMAS. Do you mean this is under the miscellaneous contract services?

Mr. BROWNSTEIN. Yes, sir; $900,000 of that is in the loan guarantee program.

Mr. THOMAS. What are your fee appraisals?

Mr. BROWNSTEIN. Fee appraisals are those made in connection with the origination of loans.

Mr. THOMAS. Who pays that?

Mr. BROWNSTEIN. The veteran pays that.

Mr. THOMAS. Why are you charging it in here if he pays it?

Mr. BROWNSTEIN. These are not those. These are liquidation appraisals. Before a foreclosure we have a property appraised.

Mr. THOMAS. That doesn't come out of the revolving fund?

Mr. BROWNSTEIN. No, sir.

Mr. JONAS. What accounts for the increase of $94,000?

Mr. BROWNSTEIN. There are two studies in there. One is a study of $150,000 which we are sharing the cost of with Social Security in connection with the fiduciary payees, and then this other study that we talked about on the validation of the rating schedule, that is $100,000.

Mr. THOMAS. Do you have this information with you?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Break down this miscellaneous contract services, $1,462,190 which is an increase of $94,700 over last year.

Mr. BROWNSTEIN. $90,000 of that is to the State Department for support services in Manila.

Mr. THOMAS. Wait a minute. What is all that about? What does that mean?

Mr. BROWNSTEIN. That is what we pay the State Department for quarters there.

Mr. GLEASON. Heat, light, power, and so on.

Mr. THOMAS. Are you in their building?

Mr. BROWNSTEIN. We are in part of the Embassy building.

Mr. GLEASON. We have pretty close to 75 percent of the new building at the Embassy.

Mr. THOMAS. That is your part of the maintenance and upkeep of the building. Heat, light, and what else?

Mr. BROWNSTEIN. $100,000 is the study I mentioned on the validation of the rating schedule.

Mr. THOMAS. What is that?

QUESTIONNAIRES TO VETERANS

Mr. BROWNSTEIN. That is the reference Mr. Ostertag made to the questionnaires that are going out by the Census Bureau.

Mr. THOMAS. What is the nature of it?

Mr. BROWNSTEIN. This is to determine whether the amounts that are being paid to veterans for service-connected disabilities are fairly accurate and in keeping with what their disablement really amounts to.

Mr. THOMAS. You are spending $100,000 for the Bureau of the Census.

Mr. BROWNSTEIN. This is what it costs.

Mr. THOMAS. What information do you expect to get for that $100,000?

Mr. BROWNSTEIN. We will find out whether a certain disablement results in the impairment of the rating capacity of the veteran to the degree that we believe it does.

Mr. THOMAS. How are they going to get that information for you?

Mr. BROWNSTEIN. By finding out what his income is, how much lost time he has, why he has the lost time. There are questions dealing with this.

Mr. THOMAS. You mean you handle thousands upon thousands of these cases and you don't have that information?

Mr. DRIVER. The rating schedule is based on that but we haven't made a study of the rating schedule in about 20 years, Mr. Thomas. It is our feeling and the feeling of a lot of other people that we should find out what these disabilities actually mean in terms of today's economic conditions under the various disablements represented under the schedule.

Mr. OSTERTAG. The veteran isn't required to answer these questions?

Mr. DRIVER. No; he is not.

Mr. JONAS. Why couldn't you do that cheaper by sending out your own questionnaire?

Mr. DRIVER. There are a lot of reasons we feel we couldn't. We feel they are more skilled in enumerating it than we are. Also we have the reluctance of the veteran to furnish information about his economic status.

Mr. JONAS. You are getting out questionnaires that are on that same subject?

Mr. BROWNSTEIN. No, sir; we do not question the veteran on compensation cases. Pension cases we do every year, but on this we have never solicited the information about his income and it is also always resented when we do. We will not get the name of the veteran back, so we try to overcome his reluctance of furnishing the data to the Government by handling it through the Census Bureau.

Mr. THOMAS. How are you going to get any accurate information? Here is X who was injured 10 years ago. You can get his earning capacity at the time he was injured 10 years ago and what he is making now, and the answer is, "If I hadn't been injured I would be making five times what I make. I would be making six times." How do you combat that?

Mr. DRIVER. We don't consider the individual in that term. We consider the average impairment of everyone in the economy. We obviously are not compensating a number of people for the high-skilled jobs they might have, except for the disability individually, but we do try to compensate them on the average for the loss.

Mr. OSTERTAG. If I understand correctly, Mr. Chairman, the Veterans' Administration has delegated this job or this service to the Census Bureau——

Mr. DRIVER. We drew up a questionnaire with them.

Mr. OSTERTAG. However, you do that on the basis of the point that the veteran will be less reluctant to answer if it comes from the Bureau of the Census rather than the VA.

I disagree with you. I have the feeling that the veteran would be more responsive to the Veterans' Administration than the Bureau of the Census. That is a matter of opinion.

Mr. GLEASON. Most people have already had experience with the Bureau of the Census when they come around every 10 years, Mr. Ostertag, and if they are conducting a side census people, generally speaking, will give them the information rather than give it to us.

Mr. OSTERTAG. Don't forget the Census rubbed the people the wrong way in the first place. It is just more of the same.

Mr. GLEASON. Of course, there are a lot of things we can gain by the Census and, of course, the Congress——

CONTRACT SERVICES

Mr. THOMAS. Let's detail your $1.3 million.

Mr. BROWNSTEIN. The $900,000 that I mentioned——

Mr. THOMAS. What book are you reading from? Is that in my book?

Mr. BROWNSTEIN. No, it isn't in your book, Mr. Chairman.

Mr. THOMAS. Is it a secret?

Mr. BROWNSTEIN. No, sir. I am giving it to you right now. I thought you might be interested in this but we hadn't enumerated it.

I mentioned the $900,000 in loan guarantee appraisals and engineering costs.

Mr. THOMAS. What was that sum last year?

Mr. BROWNSTEIN. I don't have that figure. I would judge about the same.

Mr. THOMAS. I thought our activities were going to decrease in fiscal year 1964.

Mr. BROWNSTEIN. Well, in this area of fee appraisals, subdivision analyses and so forth, there won't be much difference.

Mr. GLEASON. We have approximately the same number of properties in 1964 as we do in 1963.

Mr. THOMAS. You are talking about foreclosed properties altogether, aren't you?

Mr. BROWNSTEIN. In large measure, yes.

We also may hire some engineers on subdivision analysis, initially, preliminarily.

Mr. THOMAS. You get it from the individuals.

Go ahead. That is $1.1 million. Where is the other two?

JOINT STUDY WITH BUREAU OF OASI ON GUARDIANSHIP

Mr. BROWNSTEIN. I mentioned the joint study we are conducting with the Bureau of Old-Age and Survivors Insurance in connection with the fiduciary payees and this is costing——

Mr. THOMAS. I didn't quite understand it. I read it there two or three times last night.

Mr. BROWNSTEIN. They have a guardianship program and we have a guardianship program, and the question is the extent to which either or both of us ought to modify the manner of conducting this program and they hired a consultant firm to conduct a study.

Mr. THOMAS. Who are you joining up with in this study?

Mr. BROWNSTEIN. Social Security. Health, Education, and Welfare. They are paying the major portion of it and we are riding along.

Mr. THOMAS. What do you expect to learn from it now?

Mr. BROWNSTEIN. The degree to which we may be overdoing or underdoing in the protection of the interests of our awards in the guardianship program.

Mr. THOMAS. Then in the final analysis the judge is going to be the judge of that and not you, isn't he?

Mr. BROWNSTEIN. In cases where there is a court appointed guardian, but we have a lot of fiduciaries who are not court appointed guardians.

Mr. THOMAS. What about our 1,500 judges back in these 67 offices, aren't they pretty competent to pass on that?

Mr. BROWNSTEIN. Well, we think that they have, on balance, done a good job but we also think that there is room for improvement in this program.

Mr. THOMAS. Who is going to make this study for you?

Mr. BROWNSTEIN. Greenleigh Associates.

This is one that had been contracted for and we are riding on it for a very small portion——

Mr. THOMAS. We have seen this Government spend money for reorganization studies and the like and when you get through in 2 years from now you will turn around and do the same thing again. It looks like that is a $100,000 wasted.

Why don't you go down here and appoint a good judicial panel, these hard-nosed judges who handle thousands of these cases and let them come up with it?

When you get a half dozen blue-ribbon judges all over the country, they will do this job for you and I doubt if it would cost you anything and it would be worth a thousand times more.

Mr. GLEASON. It might cost us about $100 a day for each one of them.

Mr. THOMAS. That is a lot less than you are going to spend here.

Mr. GLEASON. I don't know. Not with all of them. We have over half a million wards of the Government.

Mr. THOMAS. They will tell you what you are doing and what you ought not to do and how you can strengthen your operation. They are your real experts.

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

How many of your guardians were in trouble last year?

Mr. BROWNSTEIN. Very, very few.

Mr. JONAS. About what number?

Mr. BROWNSTEIN. I do not recall of any cases, Mr. Jonas, in which—do you mean there was embezzlement or something of that kind?

Mr. JONAS. Then why don't you let well enough alone?

Mr. BROWNSTEIN. It is a question of maybe we shouldn't let the guardians handle more of the activity without so much VA supervision.

Mr. GLEASON. Which would cut down on our expense.

Mr. DRIVER. In the social security case we are doing very little.

Mr. JONAS. If you find a saving I hope you will let us know.

Mr. GLEASON. You will see it in our figures next year, Mr. Jonas.

Mr. BROWNSTEIN. That is why we are reducing our chief attorney by 60. It isn't because of a lessened ward load but because we think we can do a good job without quite as much supervision as we are now doing.

Mr. JONAS. They all have to file reports, don't they?

Mr. BROWNSTEIN. Yes, sir. And there is another area, we think we are getting too many reports too often.

Mr. THOMAS. We will return in the morning, gentlemen——

HIGHLIGHTS OF GUARDIANSHIP PROGRAM

Mr. GLEASON. Could I insert in the record the highlights of our guardianship program?

Mr. THOMAS. Yes.

Mr. GLEASON (reading):

Estates, 511,000, 51,000 more than the year previous. Assets of 395,000 beneficiaries accounted for during the year—a total of $757 million, with receipts of $279 million.

Unsatisfactory conditions affecting beneficiaries were found and corrected in 8,549 cases during the course of 56,000 investigations.

Mr. OSTERTAG. On the question of your study, has money been appropriated heretofore for this purpose?

Mr. BROWNSTEIN. No, sir.

Mr. OSTERTAG. This is a new item?

Mr. DRIVER. Yes, sir.

Mr. THOMAS. Gentlemen, we will return at 10 o'clock in the morning.

WEDNESDAY, FEBRUARY 6, 1963.

Mr. THOMAS. The subcommittee will come to order.

SAMPLES OF PUBLICATIONS

Did anyone bring samples of the publications that we were asking about late yesterday?

Mr. GLEASON. Mr. Gorman has them, Mr. Chairman.

Mr. GORMAN. We have several. Here is title 38. Volume of 12,000, at a cost of about $12,600. Yes, sir; it's a codification of laws in the field of veterans' affairs.

Mr. THOMAS. How often do you print that?

Mr. GORMAN. The last edition was issued in 1960.

Mr. THOMAS. You do it every other year?

Mr. GORMAN. Every other year. This issue revised the issue of 1960.

Mr. THOMAS. When was the time prior to 1960?

Mr. GORMAN. The first time was——

Mr. BRICKFIELD. Mr. Chairman, this was just enacted into positive law in 1958. Title 38 of the United States Code.

Mr. THOMAS. How many volumes of that?

Mr. GORMAN. 12,000 copies at a cost of $12,600.

Mr. THOMAS. That is for the printing bill?

Mr. GORMAN. That is our cost, sir.

Mr. THOMAS. What was your compilation bill?

Mr. DRIVER. This was mostly compiled in collaboration with the Veterans' Affairs Committee staff and the General Counsel's Office over a period of many, many months.

PAMPHLET FOR HOME BUYING VETERANS

Mr. GORMAN. We had 200,000 printed copies of this pamphlet, "To the Home Buying Veterans."

Mr. THOMAS. What is the nature of it?

Mr. GORMAN. It is a guide for the veterans to buy or build homes with a GI loan.

Mr. BROWNSTEIN. We tell them what to look for, that everything in homeownership is not sweetness and light, that there are some pitfalls, and to be careful.

Mr. THOMAS. How many copies did you print?

Mr. GORMAN. I think the figure there is 300,000, sir, for the 1962 edition.

Mr. THOMAS. What did this cost?

Mr. GORMAN. That cost appears on the front of the copy you have, sir.

Mr. THOMAS. How often do you print this?

Mr. GORMAN. As often as the changes in the law require it, sir.

Mr. BROWNSTEIN. There has been only one revision of it, Mr. Chairman.

Mr. THOMAS. It is an annual production then?

Mr. BROWNSTEIN. No, sir; it is only printed when we go out of stock.

The way we have handled changes in the law——

Mr. THOMAS. 200,000 in 1962; 300,000 in 1963. Do you plan to print any in 1964?

Mr. BROWNSTEIN. Only if our supply is depleted.

Mr. THOMAS. To whom do you send it?

Mr. BROWNSTEIN. Veterans. When they apply for a certificate of eligibility, which is the first clue we get that they are thinking about buying a house, we send them a copy.

Mr. OSTERTAG. Is that the only means of distribution?

Mr. BROWNSTEIN. Service officers get them and our contact offices get them.

Mr. THOMAS. How many do Veterans' Administration's central office distribute?

Mr. BROWNSTEIN. Very few, Mr. Chairman.

Mr. THOMAS. What does it cost to print this? This appears to contain good information.

Mr. GORMAN. $6,300 for 300,000 copies.

Mr. THOMAS. How much is that a copy?

Mr. GORMAN. A rapid calculation would make it 2 cents.

Mr. THOMAS. What does it cost to mail it out?

Mr. DRIVER. We do not mail it. It is usually picked up.

Mr. GORMAN. That goes to the regional offices for their distribution by bulk shipment.

Mr. THOMAS. It seems to be useful information. What does it say?

Mr. BROWNSTEIN. It tells the veterans the things you ought to look for, that there is more to buying a house than just making a mortgage payment. You have expenses for maintenance, you have taxes which may go up, there may be assessments, and the kind of a location they ought to look for.

Mr. THOMAS. What else do you have?

PAMPHLET, "POINTERS TO THE VETERAN HOME OWNER"

Mr. GORMAN. We have another sample, sir, "Pointers to the Veteran Home Owner" which is a guide for veterans whose home mortgage is guaranteed or insured under the GI bill.

Mr. BROWNSTEIN. That is a followup pamphlet to the one you have just seen. In the first one, he has not yet become a homeowner. This one explains to him the duties and responsibilities of being a homeowner. It tells them what he ought to do to maintain his house properly, that it can depreciate if he doesn't take care of it, and it emphasizes particularly the hazards of selling the house to somebody and not getting the other person's credit cleared.

Mr. THOMAS. How many of those are printed?

Mr. GORMAN. 200,000 sir. A cost in 1962 of $4,100.

Mr. THOMAS. That sounds like it is all right.

PAMPHLET "LENDERS HANDBOOK, GUARANTY OR INSURANCE OF LOANS"

Mr. GORMAN. We have another pamphlet, "Lenders Handbook, Guaranty or Insurance of Loans." It was printed in 1962, 35,000 copies at a cost of $13,491.

Mr. THOMAS. For whose use is that?

Mr. GORMAN. Principally banking institutions and lenders.

Mr. BROWNSTEIN. This contains a compilation of all the regulations, the basic statute, explanatory material on how to process the loans.

Mr. THOMAS. How many pages in that pamphlet?

Mr. GORMAN. This has approximately 200 pages.

Mr. BROWNSTEIN. This was put out initially, Mr. Chairman, in 1948 and this has been the first revision of it.

Mr. THOMAS. I cannot imagine a banker sitting down and reading 200 pages from you telling him how to loan his money.

Mr. BROWNSTEIN. His attorney is interested in this to be sure the guarantee is effective.

Mr. GLEASON. The mortgage departments of the banks use this somewhat as a bible.

Mr. THOMAS. Do you give it to them or sell it to them or what?

Mr. BROWNSTEIN. We give it to the program participants.

Mr. THOMAS. 35,000 copies at a cost of $2,344?

Mr. GORMAN. The figure is right on the cover there, sir. $13,000—$13,491 for 35,000 copies.

Mr. THOMAS. How often do you print this?

Mr. BROWNSTEIN. That is the first revision since 1948 and there have been many, many changes in the law since then.

Mr. THOMAS. How many is that, three or four?

Mr. BROWNSTEIN. Publications in total?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. That is four, Mr. Chairman.

Mr. THOMAS. How many more do you have to make up this total figure? You are not up to $100,000 yet and we are talking about $1 million.

Mr. GORMAN. We have many other samples of different publications here and out in the other room, sir.

TOTAL NUMBER OF PUBLICATIONS

Mr. THOMAS. What is the total number of publications?

Mr. GORMAN. The total number of publications is about 500 for Department of Veterans' Benefits.

Mr. THOMAS. What do they deal with?

Mr. GORMAN. All the various and complex programs we administer. Compensation, pension, education, loan guarantee——

Mr. BROWNSTEIN. Most of these are forms and form letters, Mr. Chairman.

PRINTING, REPRODUCTION, AND RELATED COSTS

Mr. THOMAS. What part of your $1 million printing and reproduction goes for salaries and compilation and putting this material together? Your printing bill is obviously the smallest part of it.

Mr. DRIVER. None of that item is for salaries of people who write them, Mr. Chairman.

Mr. GLEASON. That is for printing.

Mr. THOMAS. I understand. If you spend $1 million for your printing you are bound to spend at least $5 million for compilation.

Mr. DRIVER. Even more, I would think. The people who run the programs are the ones who compile it.

TOTAL VA PRINTING COST

Mr. THOMAS. What is your printing and reproduction total, approximately.

Mr. MONK. The total for the agency, Mr. Chairman, for printing and reproduction is $3 million. What you have here is Department of Veterans' Benefits.

Mr. THOMAS. Keep it to benefits now.

You have $1 million here for actual printing in Veterans' Benefits.

Mr. DRIVER. If you had a salary for compiling that material it would be many, many times that.

Mr. THOMAS. How many more? At least four or five?

Mr. DRIVER. At least; yes, sir.

Mr. THOMAS. Where is that salary cost now in the Department of Veterans' Affairs? Where does that show up?

Mr. DRIVER. The salary cost is in every program. It is under the chief attorney, the compensation and pension program, the loan guarantee program, the education program. It is in every element.

Mr. THOMAS. What is the total employment? What is the horseback opinion now?

Mr. DRIVER. Involved in this?

Mr. THOMAS. Yes.

Mr. DRIVER. It is difficult to say how many individuals, because from time to time it may be all of an office or it may be one person or it may be six or eight. In compiling the annual report, for example, the people involved in furnishing the information go down to the smallest element in the Veterans' Administration, in the farthest regional office we have, the farthest hospital or insurance office, and reach all the way up to and including the Administrator.

Mr. THOMAS. Isn't it a pretty good assumption here you could cut this down to half and do the job as well?

Mr. GLEASON. I don't think so, Mr. Chairman. I would like to read something if I may.

Mr. THOMAS. Tell us about it. Don't read it.

Mr. GLEASON. No, I want to read it.

Mr. THOMAS. It would be better if you just speak to it.

Here is a program that is not a first impression. Most of these programs have been going on for years and years.

When was your basic act passed, 1945?

Mr. MONK. 1944. The Servicemen's Readjustment Act.

Mr. DRIVER. December 1944.

Mr. THOMAS. How long ago has that been? Nineteen years ago? You have minor variations.

Mr. DRIVER. There were 33 major legislative changes in the last Congress involving the compensation and pension program in which there were 16; in loan guarantee there was one which was a major program extension. There were six in the educational program, three in insurance and in the medical department. Each one of these required many, many publications, forms, regulations, and informational material to put into effect. As you know, this is true almost invariably in every session of Congress.

DISTRIBUTION AND USE OF PRINTED MATERIAL

Mr. THOMAS. How is that so vital to a man who needs hospitalization? If he needs hospitalization regardless of the information you send him he is going out to that hospital and try to get in. It is up to the people there to let him in or to deny him.

Mr. DRIVER. But they will let him in or deny him under the instructions we publish and unless those are current we may not be treating him properly or we may be letting someone else in who no longer——

Mr. THOMAS. Your printing goes out to everybody. All veterans.

Mr. DRIVER. No, sir.

Mr. THOMAS. You do not confine it to your installations.

Mr. DRIVER. It goes to our own employees and members of the veterans organizations and the other groups who are organized to represent veterans on a day-to-day basis. We cannot and do not pretend to inform every single veteran of his entitlement.

Mr. THOMAS. You have just had top people from all over the country here to Washington, some 300 of them, and I think it is a good thing. What is the use of bringing them up here if you are going to spend $15 million or $20 million haranguing them by mail and sending them all these pamphlets and other publications?

Mr. DRIVER. You couldn't expect those men to be informed in 2 or 3 days on 33 items of legislation and all of the individual interpretations of that.

Mr. THOMAS. Why couldn't you?

Mr. DRIVER. I think probably there isn't a single individual who could convey that information in 3 days. Plus the fact that those men are not technicians in these programs.

Mr. THOMAS. Why bring your top staff here to Washington?

Mr. DRIVER. To instruct them in manpower utilization, office methods, and things of that sort. We do not rely on them to inform the veteran on whether he should elect pension under the new law, for example, or where he can admit a veteran to a hospital with such-and-such service or whether the administration of the peacetime rehabilitation program is——

Mr. THOMAS. It is just a rehash of your old laws, is it not?

Mr. DRIVER. I wish that were true, but it isn't.

Mr. THOMAS. How about your veterans under the home loan. What is new about that?

Mr. BROWNSTEIN. We have had many changes in there, Mr. Chairman. For example, in the last session, as Mr. Driver mentioned, the formula that was established for determining eligibility is a complicated one that you couldn't tell to the manager and have him go home and transmit it to the people who really do, because it is very complex.

Mr. THOMAS. Do you think the GI who is in the market for a home, that that means very much to him? He says, "I have a right." And the way he is going to find out whether he qualifies under this right is to go to the proper people.

Mr. BROWNSTEIN. It will mean a good deal to him, Mr. Chairman, because he may go to somebody and find out his entitlement expired the day before yesterday.

Mr. DRIVER. And he didn't realize it. Unless he read the Federal Register with a lot more intelligence than most of them have in these matters he couldn't possibly know it.

Mr. THOMAS. You are discounting their intelligence. They keep up with their rights better than you think they do.

Mr. GLEASON. I don't know whether this is true, Mr. Chairman, because when the cutoff date came on the national service life insurance 16 million of them were not aware of it.

Mr. JONAS. You don't really mean that, do you? You haven't heard from 16 million of them. About half of them elected not to continue with it, wouldn't you say? They were aware of it.

Mr. GLEASON. Yes, sir; but so far as the reopening is concerned, Mr. Jonas, after World War I the Congress permitted 15 years to go by before there was a cutoff date and which, when the act was passed, allowed a full year for them to reinstate. In 1951 when this same thing happened for World War II and Korean veterans they were given no advance knowledge at all. The law was effective as of the date of passage.

Mr. JONAS. I haven't had a single veteran tell me he wasn't aware of the cutoff date, but I have had scores and scores tell me that they didn't feel that they wanted to carry it then but now their economic situations have changed.

Mr. DRIVER. We have many, many letters from men who protest that they didn't know it. We have many who were in the insurance business who say they didn't realize it. We have doctors, lawyers, the whole gamut of our society and they protest they didn't know it.

We have this in every type of program. "I just didn't realize this. Someone should have told me."

MANAGERS CONFERENCE COSTS

Mr. JONAS. With respect to bringing people up here—in the first place, I think we ought to get the cost of that conference on the record.

What would you say the conference cost?

Mr. HANSMAN. $40,000 would be our best estimate, sir.

Mr. JONAS. Would that cover all of it?

Mr. DRIVER. Yes, sir.

Mr. JONAS. You have an attorney in every regional office and he is just as smart as the attorneys in Washington. Why can't he interpret these changes as well as your people here in Washington?

Mr. DRIVER. Because we only want one interpretation going, not 67 of them, sir. That is the main reason. I think in the law especially, it is reasonable to expect you would find varying interpretations if you left it to the individual initiative on the part of the chief attorney, regardless of his intelligence. That is the reason we try to assume leadership and make sure we are all going in the same direction.

Mr. JONAS. Are there substantial grounds for differences of opinion as to what the law means?

Mr. DRIVER. I think the fact the General Counsel finds himself involved in several hundred opinions each year, which is in effect assuming a leadership role, giving direction to all these attorneys all over the country, is absolute proof of the fact that you do have a great variety of different opinion as to what the law means.

Mr. JONAS. I don't think you have as much danger of having differences of opinion as to what the law is as is indicated with respect to interpreting the extent to which a man is disabled.

Mr. DRIVER. In those cases we have about 240 rating boards, each one with three members, and I admit this is a very difficult area to bring a semblance of uniformity to.

Mr. JONAS. It is impossible.

Mr. DRIVER. We do attempt to do it. However, underlying that and even more basic is the interpretation of the original statute and if we start off here with a variety of opinion from one office to another, one attorney to another, we just then complicate the rendering of judgment in the matter of adjudication, admission to hospitals and so on. Also entitlement to education, entitlement to housing, the question of who is responsible after something goes wrong in the matter of house ownership, for example.

All of these areas admit of a tremendous variety of opinion and it is because of this and because of an attempt to bring some uniformity and reasonableness that we do all of this.

We have meetings, we have conferences of our managers here mainly for administrative management reasons.

Well, we will have technical conferences of attorneys, of doctors, of all of the professions, engineers, to try to get down to the technical details of the program.

Mr. JONAS. In addition to your managers and lawyers who attended the conference?

Mr. DRIVER. Just the managers.

Mr. JONAS. The lawyers didn't come?

Mr. DRIVER. No, sir; just the managers. This was a business meeting.

Mr. JONAS. You have destroyed your own argument, Brother Driver.

Mr. DRIVER. How, sir?

Mr. JONAS. You said the purpose of this was to have the same interpretation or uniformity of interpretation of the law in all regional offices. You didn't even bring your lawyers in——

Mr. DRIVER. The purpose of this meeting was not in regard to the law, as I explained to the chairman earlier. The purpose of this was an administrative management meeting. We were in the position of not being involved in explaining to them what these various laws mean and that is why I said that it would take longer than 3 days or even a month to try to explain 33 new laws and what they mean.

This was not the purpose of the meeting. We did not discuss these. The purpose of this meeting was to attempt to bring out information in the areas of manpower utilization, office systems, to explain the changes that have been announced in the organization of the Veterans' Administration, to tell all of these managers who have a vital interest from a management standpoint in the business activities of our office why it is we are establishing a data management service; what we intend to do in the future in electronics and that sort of thing. It had nothing whatever to do with explaining changes in the law.

Mr. JONAS. That is all.

NUMBER OF ITEMS PRINTED

Mr. GLEASON. Mr. Chairman, before we get away from this printing I would like to mention that the Veterans' Administration prints and uses a total of 8,736 different forms or form letters, about half of which are used on a VA-wide basis and this same figure that we are talking about includes the salaries of those who do the printing. It does not include the salaries, however, of those who compile.

Mr. THOMAS. Well, I think the record as far as the printing for veterans benefits are concerned is clear. We use a round figure of $1 million for your printing bill and as it has been testified perhaps the complete bill for salaries and expenses for compiliation would be between $5 million and $6 million.

TOTAL VA PRINTING COSTS

Now what is your entire printing bill throughout the agency? I don't see a wrap-up figure on that. Did I overlook it in my perusal of these tables?

Mr. MONK. I do not believe there is a table in there, Mr. Chairman. The entire printing bill for the agency in fiscal year 1962, $3,065,655.

Mr. THOMAS. What is the estimated for fiscal year 1964?

Mr. SHYTLE. $3,213,864.

Mr. THOMAS. It goes up about 10 percent.

What would be the overall cost of your item when you adjust for salaries and expenses?

Mr. GLEASON. I think we also should mention the tabulating card forms for the IBM machines that are utilized here.

Mr. THOMAS. You have a $3 million printing bill, $3.21 million. Is this not a fair assumption overall you have at least $15 million expense total? That will not miss it far, will it?

Mr. MONK. $10 to $15 million to compile and print.

Mr. THOMAS. It would be more than that.

Mr. JONAS. That is every year, too, isn't it?

Mr. MONK. Yes, sir.

Mr. GLEASON. Yes, sir.

Mr. THOMAS. And going up every year.

Mr. GLEASON. And, Mr. Jonas, all the cards we use in our IBM equipment are purchased, stocked, and cut and printed under this also.

Mr. JONAS. Once you get these pamphlets you wouldn't have to revise them every year?

Mr. GLEASON. No, sir; but I tried to point out, the 8,736 various letter forms and individual forms that are used in the agency, all of this is purchased for stock and printed. The same thing with the IBM cards we use for the 22.5 million veterans.

Mr. MONK. Half of that total of $3 million is for forms. You must remember that we are primarily a mail order operation. Practically everything we do with the veteran is by mail.

REDUCTION IN NUMBER OF PUBLICATIONS

Mr. THOMAS. Well, gentlemen, let me say this—and I say this in all sincerity: John Public is getting irritated to a far greater degree than we all realize over this printing and reproduction item. This is true not only for your agency but throughout the Government. When you even go in your own offices, with your own staff, the first thing they will start complaining about in the morning is all of this trash coming from these Government agencies. They don't have wastebasket space enough to put it in every morning. That is not only true for you but it is true for the rest of the agencies.

I say that in all good humor. You ought to reduce these printing and binding expenditures no less than 25 percent and you can do it; and I think if you could line up just any 100 veterans in any part of the United States they will say, "I am tired of getting that stuff."

They don't look at it, it doesn't mean anything to them. They know they have some rights and when they get ready to exercise them they go to the proper place and they are not going to bother themselves with the technicalities here and here and here and beyond.

Mr. GLEASON. No; but we have to bother ourselves with them, Mr. Chairman.

Mr. THOMAS. Yes; but you don't have to bother your constituency with them by spending $15 million.

Mr. GLEASON. I would just like to point out once again what was brought out here yesterday, that the Assistant Archivist of the United States for Records Management mentioned that the Veterans' Administration has one of the best paperwork programs in the entire Federal Government.

Mr. THOMAS. Well, you know what one of the best paper work programs to the Archivist is? Just more and better. If you are talking about our friend the professor over there, he is a grand man.

Mr. GLEASON. We cut down over 200,000 cubic feet of space.

Mr. THOMAS. Dr. Grover is a fine man. Does he teach people how to write letters over there?

Mr. GLEASON. We teach our own——

Mr. THOMAS. We had a program to teach everybody to write letters.

Mr. GLEASON. We already went through that 2 years ago.

Mr. DRIVER. We are having a refresher course every now and then.

EMPLOYEE TRAVEL

Mr. THOMAS. What about your employee travel? It goes down $89,000 to $2,099,000. It is about $2.2 million for this year.

Can't this travel be reduced?

Mr. BROWNSTEIN. I can break that down for you, Mr. Chairman.

Mr. THOMAS. This is for veterans benefits alone. It is not agency-wide.

Mr. BROWNSTEIN. $400,000 of that is Central Office travel and this is for surveys, it is to make these audits and examinations that we were discussing here yesterday; $685,000 is——

Mr. THOMAS. What part of that is charged to the Office of the Administrator?

Mr. BROWNSTEIN. None. This is all the Department of Veterans' Benefits.

Mr. THOMAS. He has his eyes and ears staff there of about 100 men, you know.

Mr. BROWNSTEIN. These are programs surveys and audits, Mr. Chairman.

Mr. THOMAS. What are these people investigating when they travel? You have 5 stationed in the field and about 40 here. What information are they going to get that you don't get?

Mr. BROWNSTEIN. We are going to get from our surveys a total review of the technical efficiency, the technical accuracy of the particular program, the management of the program, see that all of these instructions are being followed properly——

Mr. THOMAS. You had better get an army then, if you are going to keep up with 500 publications.

Go ahead and break down the $2 million.

Mr. BROWNSTEIN. $685,000 is for chief attorney. This is for the field examinations principally in connection with either awards, social surveys, loan guarantee investigations, et cetera.

Mr. THOMAS. That is primarily local travel. It may cover what, three, four, five counties, a half dozen States or what?

Mr. DRIVER. Regional area.

Mr. BROWNSTEIN. It is not local, Mr. Chairman, except the $100,000.

Mr. THOMAS. Go ahead.

Mr. BROWNSTEIN. $585,000 is for loan guarantee. This is to service defaulted loans, to go out and make property inspections, check on appraisals, compliance inspections, and this sort of thing.

Mr. THOMAS. What was that item year before last for travel?

Mr. BROWNSTEIN. I would judge it is about the same, Mr. Chairman

Mr. DRIVER. The total is about the same.

Mr. BROWNSTEIN. $534,000.

Mr. THOMAS. You had an increase in travel allowance last year. Why didn't you go up over the preceding year?

Mr. BROWNSTEIN. Well, we also cut back on travel.

Mr. MONK. It did. It went up from $534,000 in 1962 to $585,000 in 1963.

Mr. THOMAS. Mr. Budget Officer, you are the best in the West, but next year you come in here and spell this out.

Mr. SHYTLE. Yes, sir.

Mr. BROWNSTEIN. $160,000 is contact service. We are providing itinerant contact service to a number of points.

VOCATIONAL REHABILITATION AND EDUCATION TRAVEL

Vocational rehabilitation and education is $616,000. This is for the purpose of visiting school and all of the related activity in the education program.

Mr. THOMAS. How has that item been fluctuating for the last 5 years?

Mr. BROWNSTEIN. 5 years ago my guess would be it was about triple that.

Mr. DRIVER. We now have 3,100 training establishments still in existence.

Mr. THOMAS. How many did you have 5 years ago?

Mr. BROWNSTEIN. There are 5,700 schools. Actually, there has not been a very marked reduction in the number of training establishments.

Mr. THOMAS. How many people do you have in travel status inspecting the schools for your training program? An inspector will handle 50 students as easily as he can 25. All he is going to do is spot check. After all, the number of students is not too much a matter of concern. He is not going to look over what the students are doing and interview each student.

Mr. BROWNSTEIN. We will probably find half of the total number for the benefits and facilities group travel, there are 235 there, and the vocational counselors we have 360——

Mr. THOMAS. Do they travel out of your regional offices?

Mr. BROWNSTEIN. Yes, sir. We have 365 vocational counselors and they would be in travel status part of the time.

Since we have consolidated our vocational rehabilitation and education activities, we now send counselors into areas periodically to counsel veterans, so this increase is——

Mr. THOMAS. Well, you don't show any reduction in your travel appreciable to your reduction in the various programs.

Mr. BROWNSTEIN. The reason for that, Mr. Chairman, is because of the law that was passed in the last session.

Mr. THOMAS. You have a reduction of $89,715 for 1964 over 1963, which still gives you $2.1 million. And the number of students has fallen off 10 or 15 or 20 percent. We have one little new program coming in.

Mr. BROWNSTEIN. That is right, but it is one that requires a good deal of counseling. The vocational rehabilitation program for peacetime veterans involves counseling in everyone of these cases.

Mr. THOMAS. How does that affect travel so substantially?

Mr. BROWNSTEIN. Well, we have our counselors who travel to many of these areas and the distances, of course, are increased because of the consolidations that we have effected.

AGENCYWIDE TRAVEL COSTS

Mr. THOMAS. Now, can you give us a wrap-up figure for employee travel throughout the Veterans' Administration? We will take it up by departments later.

Mr. MONK. $6,013,224. It is Object 21.

Mr. THOMAS. This is the table I was looking for. This breaks it down pretty well; $6,013,000. That is for everybody. This is for what year?

Mr. MONK. Fiscal year 1964. Now, fiscal year 1963 is right above there; $6,013,554.

Mr. THOMAS. 1962 is $5,323,000. That is a rise from fiscal year 1962 to fiscal year 1964.

Mr. MONK. Yes, sir.

Mr. SHYTLE. This is a rate increase. The information you are looking for, Mr. Chairman, appears on 8–3 and 8–4.

Mr. THOMAS. What is your total figure now for rental of all your properties and equipment throughout the whole VA? This doesn't bring it out as such.

Mr. MONK. No, sir.

Mr. GLEASON. It combines them.

Mr. THOMAS. Can you come up with a figure on that?

Mr. MONK. It would take us a couple minutes, sir. We would have to combine some figures.

COMMUNICATION COSTS

Mr. THOMAS. I notice you use round figures on telephone and telegraph; 1963 and 1964, $1,138,990 for both years.

Are you living up to your 1963 estimate for the first 6 months?

Mr. BROWNSTEIN. The first 6 months was $562,000, Mr. Chairman.

Mr. THOMAS. That is on the basis of $1.1 million then, isn't it?

Mr. BROWNSTEIN. Yes, but, of course, not having our——

Mr. THOMAS. What is your yardstick? Could your telephone and telegram be cut down any by more judicious use of your telephone calls? It is pretty easy to pick up a phone and call long distance. It is so much easier than sitting down and writing a letter.

Mr. BROWNSTEIN. Yes, of course; and we have cautioned our people on unnecessary use of this, Mr. Chairman, but actually with data management, it might increase costs.

Mr. THOMAS. How do you mean?

Mr. BROWNSTEIN. Well, you have a centralized data-processing center and if you get an inquiry on some veteran who hasn't got his check and you know that he needs it quickly, you are going to either telegraph or telephone the center to try to find out where it is.

Mr. THOMAS. Where will that inquiry normally originate?

Mr. BROWNSTEIN. The veteran may come to us direct or through some member——

Mr. THOMAS. Might he go to the regional office?

Mr. BROWNSTEIN. Yes; but that regional office will call the center.

Mr. GLEASON. A great many of them come to the Members of Congress, and the White House also, Mr. Chairman.

MISCELLANEOUS CONTRACTURAL SERVICES

Mr. THOMAS. What do you mean here by miscellaneous contractual services, $1,462,000? You have an increase of $94,000 over last year, which was $1,367,490.

Mr. BROWNSTEIN. That is the one I think I put into the record yesterday, Mr. Chairman.

Mr. THOMAS. What was it?

Mr. BROWNSTEIN. The $90,000 for the State Department support service in Manila. The two studies that we are having, one on the validation of the rating schedule and the other one on the Bureau of Old-Age and Survivors Insurance, on fiduciary payees. Nine hundred thousand dollars of that was in loan guaranty, $100,000 on credit reports and related matters, $30,000 for court costs for the chief attorney, and $5,000 for determinations and certifications required in connection with dependency and indemnity compensation, consultant fees, and independent medical fees.

Mr. THOMAS. Under the central office you have miscellaneous contractual services here, $391,500.

There is an increase of $104,000 over 1963. [reading:]

Funds for the maintenance and repair of DVB Central Office furniture and office machines on a contractual basis.

Reimbursement to other Federal agencies and for other contractual services such as (1) determinations and certificates required by 38 U.S.C. 422 (social security entitlement in combination with DIC paid by Veterans' Administration). * * *

What is that?

Mr. DRIVER. That pays additional amounts to a widow having children above two, the additional amount being paid up by social security.

Mr. THOMAS. How much do you transfer to social security for that service?

Mr. DRIVER. About $5,000.

Mr. THOMAS (reading):

Support services provided by U.S. embassies in Manila.

You went into that yesterday. What is that figure?

Mr. DRIVER. $90,000.

Mr. THOMAS. That is heat, light, and water, and janitorial services, I guess. [Reading:]

Consultant fees are required.

What do you spend for consultant fees?

Mr. BROWNSTEIN. The certifications Mr. Driver mentioned plus independent medical fees when we hire an independent medical expert to review a case. Those three items combined total about $50,000.

Mr. THOMAS. Did you actually spend, in 1962, $53,000 for independent medical fees for consultants?

Mr. BROWNSTEIN. Those fees in fiscal year 1962 were about $2,000, sir.

Mr. THOMAS. About $2,000 and not $50,000, then?

Mr. BROWNSTEIN. The combined three items total $50,000, Mr. Chairman.

Mr. THOMAS. What are the combined three?

Mr. BROWNSTEIN. The certifications Mr. Driver mentioned, consultant fees, the independent medical fees.

Mr. THOMAS. What is the occasion for having consultant medical fees outside the medical department?

Mr. BROWNSTEIN. The independent medical examiners?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. Or the consultant fees?

Mr. THOMAS. Either one or both.

Mr. BROWNSTEIN. In the consultant fees, we have an advisory committee in vocational rehabilitation and education that meets quarterly and they are paid consultant fees. The independent medical examiners, we have used them with the House Committee on Veterans' Affairs. They requested we submit a series of cases to independent medical examiners and this we have done.

Mr. THOMAS. And you say:

In addition to normal requirements, $140,000—

you refer to that every year—

is included in fiscal year 1963 and $100,000 in fiscal year 1964 for pilot study to develop procedures for use in subsequent economic validation of compensation rating schedule.

What you are going to spend is not $100,000 or $140,000 but $240,000?

Mr. BROWNSTEIN. We are spending $100,000 in fiscal year 1964.

Mr. THOMAS. What did you spend in fiscal year 1963?

Mr. BROWNSTEIN. $130,000 so far.

Mr. THOMAS. You say:

In addition to normal requirements, $140,000 is included in fiscal year 1963 and $100,000 in fiscal year 1964.

Well, what are normal requirements?

VALIDATION OF RATING SCHEDULE

Mr. BROWNSTEIN. We validate the rating schedule constantly. There is a constant review of the rating schedule to determine its validity.

Mr. THOMAS. You touched on that yesterday. Now repeat it again today. What do you hope to learn by this rating schedule? Who is going to make the study for you?

Mr. DRIVER. We are making it ourselves.

Mr. BROWNSTEIN. We are making it ourselves, but the Census Bureau is sending out the forms. We have had them include a series of questions that we believe will assist us in it. The Census Bureau will make the tabulation as well as get the forms back and furnish us with the consolidated material. On the basis of this we are hopeful of determining whether the amounts that are being paid for various disabilities are proper in relation to the reduced earning capacity of the veterans.

Mr. THOMAS. You have a limitation of X dollars on what he can have. What difference does it make?

Mr. BROWNSTEIN. The limitation is on the maximum, Mr. Chairman.

Mr. THOMAS. Yes, and this affects the maximum, so you haven't gained anything.

Mr. BROWNSTEIN. It could afford a basis for recommending to the Congress revisions in this area. And there is a good deal of administrative discretion in the revision of the rating schedule in determining what the rating ought to be for various disablements, and there of course we could act.

Mr. THOMAS. What about your supplies and materials, $1,468,600 for 1964? Office supplies and materials are $755,000, a reduction of $30,000 from this year.

CENTRAL OFFICE—DEPARTMENT OF VETERANS' BENEFITS

Gentlemen, let's take a look down by breakdown of the Central Office at page 8–10.

We touched on these in some degree yesterday. Put 8–10 in the record.

(The page referred to follows:)

DEPARTMENT OF VETERANS BENEFITS

Central Office, $8,358,500—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment	554	550	540	−10
Personnel compensation	$4,972,648	$5,218,450	$5,484,790	+$266,340
Personnel benefits	373,762	402,350	421,010	+18,660
Total personal services and benefits	5,346,410	5,620,800	5,905,800	+285,000
Public Law 87–793 pay increase		(221,200)	(431,000)	(+209,800)
Travel and transportation of persons	441,775	410,300	400,200	−10,100
Transportation of things	87,141	93,000	93,000	
Rents, communications, and utilities	1,037,167	1,164,800	1,299,800	+135,000
Printing and reproduction	217,717	261,000	230,000	−31,000
Other services	147,627	288,100	392,800	+104,700
Supplies and materials	16,813	16,900	16,900	
Equipment	2,083,021	20,000	20,000	
Total cost	9,377,671	7,874,900	8,358,500	+483,600
Public Law 87–793 costs		(339,200)	(684,000)	(+344,800)

Mr. THOMAS. In Central Office you have a reduction of 10 average employment from last year. The total cost of $8,358,500 is shown. This year the total cost of the office is $7,874,900, and it increases $483,600, yet you have a reduction of 10 jobs.

IN-GRADE PROMOTION COSTS

Did we get a reasonably accurate figure in the record yesterday as to what the in-grade promotions cost a year?

Mr. BROWNSTEIN. I believe we did Monday.

Mr. THOMAS. What was that figure?

Mr. MONK. $10 million for the agency.

Mr. THOMAS. Percentagewise what would that be?

Mr. DRIVER. We did it by grade. The average grade in the agency was 6.6 at that point and at this point it was about $120, as I recall, sir.

Mr. THOMAS. That was the overall cost: $9 million to $10 million a year. That is the figure we used?

Mr. DRIVER. That is right.

Mr. MONK. It is 1-percent figure, isn't it?

Mr. THOMAS. We went into it more or less by grades and that was about the only accurate way we could do it. We got this in the record Monday; didn't we?

Mr. SHYTLE. Yes.

CENTRAL OFFICE EMPLOYMENT

Mr. THOMAS. Put page 8-11 in the record.
(The page referred to follows:)

DEPARTMENT OF VETERANS' BENEFITS

Central office—Average employment by program

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Chief Benefits Director	20	22	22	----------
Field directors	25	22	22	----------
Compensation and Pension	120	119	119	----------
Vocational Rehabilitation and Education	34	30	27	−3
Loan Guaranty	72	72	72	----------
Guardianship Service	23	23	23	----------
Contact and Foreign Affairs	32	31	31	----------
Administration and Data Processing	92	94	94	----------
Controller	102	104	98	−6
Personnel Service	34	33	32	−1
Total	554	550	540	−10

GENERAL

This estimates provides for personal services and other administrative expenses required for the planning, direction, and supervision of the Department of Veterans' Benefits. A decrease of 10 in average employment is shown consistent with declining activities in some programs and better utilization of existing personnel.

The Chief Benefits Director is responsible to the Administrator for the operation of the Department and is assisted by:

1. The Deputy Chief Benefits Director who serves as his full assistant, acts for him in his absence, and participates fully in the direction of all activities of the Department.
2. The field directors who are directly responsible for operations of their assigned stations. Each director has assigned responsibility for a geographic area comprising approximately one-fourth of the field stations under the jurisdiction of the Department of Veterans' Benefits.
3. The service directors and their staffs who provide technical assistance for their respective programs.

The Chief Benefits Director is responsible for expenditures involving approximately $4 billion annually, the operation of 67 field offices, a data processing center and staff elements in central office, utilizing a total estimated average employment of 15,169 in fiscal year 1964.

Mr. THOMAS. This is the average employment by program.

Chief Benefits Director, 20, 22, 22; field directors, 25, 22, 22; compensation and Pensions, 120, 119, 119; Loan Guaranty—these are all employment in the District of Columbia?

Mr. MONK. That is right.

Mr. THOMAS (reading):

The Chief Benefits Director is responsible for expenditures involving approximately $4 billion annually. The operation of 67 field offices, a data processing center and staff elements in central office, utilizing a total estimated average employment of 15,169 in fiscal year 1964.

That is quite a job, Mr. Brownstein.

To provide personal service funds for the planning, direction and supervision of the Department of Veterans' Benefits.

That is the personal service total of $5,905,800 estimated for 1964 at an increased cost of $285,000.

Let's take a look at the field.

Mr. EVINS. Mr. Reporter, place in the record pages 8–16 and 8–17. (The pages referred to follow:)

DEPARTMENT OF VETERANS' BENEFITS

Office of Manager, Field, $3,022,100—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment	310	309	309	
Personnel compensation	$2,885,560	$3,055,700	$3,172,247	+$116,547
Personnel benefits	215,637	232,800	244,153	+11,353
Total personal services and benefits	3,101,197	3,288,500	3,416,400	+127,900
Public Law 87-793 pay increase		(150,500)	(240,100)	(+89,600)
Travel and transportation of persons	115,360	114,300	112,300	−2,000
Transportation of things	30,396	16,000	30,000	+14,000
Other services	1,310	1,500	1,500	
Total cost	3,248,263	3,420,300	3,560,200	+139,900
Common service adjustment	−497,744	−519,500	−538.100	−18,600
Net cost	2,750.519	2,900,800	3,022,100	+121,300
Public Law 87-793 costs		(129,500)	(206,100)	(+76,600)
Personal services and benefits:				
Personnel compensation	2,885,560	3,055,700	3,172,247	+116,547
Personnel benefits	215,637	232,800	244,153	+11,353
Total	3,101,197	3,288,500	3,416,400	+127,900
These funds will provide adequate staffing for the Office of the Manager to effectively direct and coordinate the various departmental program activities and related functions of that office. The increase in budget year costs over fiscal year 1963 estimates provides for 2 additional workdays and nominal increases for with-in-grade salary advancements and the salary increases provided by Public Law 87-793.				
Travel and transportation of persons:				
Local travel	410	300	300	
Employee travel	114,950	114,000	112,000	−2,000
Total	115,360	114,300	112,300	−2,000
The estimated cost of travel of managers and staff members to central office and other locations for the purpose of attending conferences and meetings pertaining to the business of veterans' affairs. The estimate also includes funds to cover travel expenses incurred by the transfer of employees between stations.				
Transportation of things: Shipment of household goods	30,696	16,000	30,000	+14,000
The cost of shipping household goods and personal effects of employees transferring between stations. The increase in fiscal year 1964 over 1963 represents trans-Pacific shipment of household goods and personal effects incident to the scheduled rotation of 6 employees to and from the Manila regional office. The estimate for fiscal year 1963 includes transpacific shipment of household goods and personal effects for 1 scheduled transfer.				
Other services:				
Representation allowance	433	500	500	
Official residence allowance	877	1,000	1,000	
Total	1,310	1,500	1,500	
The estimate under this title is to cover the maximum official residence and representation allowances authorized for the incumbent of the position of manager (or acting manager), VA regional office, Manila, Philippines, as provided by Public Laws 86-116 and 86-707.				

Mr. EVINS. This is an appropriation of $3,022,100. Average employment is 309. No change.

The personnel benefits are increased by $11,353.

Travel and transportation of persons is decreased by $2,000.

Transportation of things is up $14,000.

The total increase on all of these is $139,900.

The common service adjustment. What is that, Mr. Administrator? It is down $18,600.

Mr. BROWNSTEIN. Those are services rendered by the Department of Medicine and Surgery and the Department of Veterans' Benefits.

Mr. EVINS. This brings it down $18,600.

The net cost of the manager in the field, $3,022,100.

These funds will provide adequate staffing for the office of the manager to effectively direct and coordinate the various departmental program activities that relate to the functions of that office. This provides for two additional workdays and nominal increases for within-grade salary promotions.

Shipment of household goods is shown to increase by $14,000.

I am sure all this is necessary to run the office of the field manager.

CHIEF ATTORNEY'S ACTIVITIES

The chief attorney in the field. Insert pages 8–18 and 8–19 in the record.

(The pages referred to follow:)

DEPARTMENT OF VETERANS' BENEFITS

Chief attorney, field, $12,899,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment	1,555	1,570	1,510	−60
Personnel compensation	$10,609,421	$11,207,000	$11,229,000	+$22,000
Personnel benefits	810,488	864,000	882,000	+18,000
Total personal services and benefits	11,419,909	12,071,000	12,111,000	+40,000
Public Law 87-793 pay increase		(476,000)	(849,000)	(+373,000)
Travel and transportation of persons	654,508	670,000	685,000	+15,000
Transportation of things	7,576	18,000	28,000	+10,000
Other services	34,624	35,000	35,000	
Supplies and materials	41,099	40,000	40,000	
Total cost	12,157,716	12,834,000	12,899,000	+65,000
Public Law 87-793 costs		(476,000)	(849,000)	(+373,000)

Summary of major workloads

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Total wards (end of year)	510,973	560,000	590,000
Accounts audited	394,798	405,000	339,000
Field examinations completed	173,452	165,000	189,600

Distribution of employment by activity

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Office of chief attorney	127	130	130
Fiduciary accounts analyst	291	298	255
Guardianship attorney	222	218	216
Field examination	368	368	368
Loan guaranty attorney	56	59	58
Administrative	491	497	483
Total	1,555	1,570	1,510

The workload functions performed by this program activity are related to guardianship, field examination, loan guarantee, and other legal activities. In this capacity the office of the chief attorney is responsible for: (1) administration of an efficient and economical guardianship program for the purpose of safeguarding the estates of minor and incompetent VA beneficiaries, (2) a program of field examination for the purpose of obtaining evidence relating to claims for VA benefits, such as, compensation, pension, insurance, retirement and servicemen's indemnity cases, vocational rehabilitation and education cases, loan guarantee cases, accident (tort) cases, and a variety of other matters; the development of medical, social, and economic information essential to the supervision of VA beneficiaries for whom fiduciaries have been appointed, and (3) furnishing legal advice and asistance (including litigation in State courts) to managers of field stations, directors of hospitals, and other VA field officials with respect to matters arising under governing State laws and Federal statutes and regulations administered by the VA.

The number of wards (minors, incompetent veterans, and other incompetent beneficiaries whose VA benefits must be paid to fiduciaries), as indicated in the foregoing summary, will continue to increase due to minor beneficiaries becoming eligible for pension.

Accountings to the VA by fiduciaries is a control mechanism used to assure that the payment of benefits are being judiciously administered for the care and maintenance of the ward. Accountings normally occur in the year after appointment. The decline in accounts audited for 1964 is attributable to extension of the accounting interval for all custodian accounts from 1 to 2 years with initial development thereof by correspondence.

Field examinations are conducted for purpose of obtaining evidence relating to claims for VA benefits; qualifications of proposed fiduciaries and guardians; the needs of minors; the income and expenditures on behalf of wards; the performance of social surveys conducted to develop social and economic information essential in the supervision of VA beneficiaries. The decrease in field examinations for 1963 is attributable to the decline in guardian-custodian investigations due to the substitution of initial development by correspondence in all cases in which the adjudication officer makes award to the parent custodian of record before referral to the chief attorney. The increase for 1964 is attributable to resumption of full interim social surveys for new cases not previously investigated.

Mr. EVINS. This includes all attorneys in the field?

Mr. BROWNSTEIN. Yes, sir.

Mr. EVINS. $12,899,000.

Your average employment in fiscal year 1963 was 1,570, and for fiscal year 1964 it is 1,510, or a decrease of 60. Will these all be attorneys?

Mr. BROWNSTEIN. No, sir; part will be clerical. Some may be nonlegal field examiners.

Here is a summary of the major workload of the attorneys in the field.

Mr. EVINS. Total wards at the end of 1962 were 510,973. In 1963 there are 560,000 and for 1964 it is estimated to be 590,000.

The accounts audited in 1962 were 394,798; the current year, 405,000; and next year 339,000 accounts audited.

Mr. BROWNSTEIN. May I point out, Mr. Evins, that despite these increased workloads we are still showing a reduction in average employment of 60. We are going to do that through increased efficiency and productivity.

Mr. EVINS. Field examinations completed in 1962 were 173,000; last year, 165,000; and in 1964 it is estimated to be 189,600.

What do these field examinations embrace?

GUARDIANSHIP ACTIVITIES

Mr. BROWNSTEIN. Most are in connection with guardianship activities.

Mr. EVINS. The chart at the top of page 8–19 gives you the distribution of employment by activities.

Guardianship work and examination of fiduciary accounts.

Aren't these pretty much controlled in the local banks, or are they distributed in the banks in the various regions? How are they handled?

Mr. BROWNSTEIN. There are a good many of these cases where there has not been a court-appointed guardian. The natural parent, for example, might be the custodian, fiduciary without a guardian having been appointed by the court.

But, even where there is a guardian appointed, we still get annual accountings and we audit the accounts.

Mr. EVINS. If a veteran has lost his life in the service, a serviceman, and his widow or his mother or some member of his family is entitled to benefits, where are these accounts kept? Say, there is one in the West and one in the South.

Mr. DRIVER. They are kept wherever the children are located.

Mr. EVINS. They are kept nearby?

Mr. BROWNSTEIN. Yes. It would be in the locality where they are living.

Mr. EVINS. Funds are deposited in the accounts named and the local attorney or the guardian is in charge of it to increase or decrease payments as he deems best?

Mr. DRIVER. And, if it is a natural parent who has the custodianship of the child, we would pay to the parent. They might or might not put it in the bank. They might buy Government bonds. We do insist on supervising how they spend the fund.

Mr. BROWNSTEIN. It may be necessary for the care and maintenance of the child.

Mr. EVINS. This constitutes rather a large amount in total throughout the VA, does it not?

Mr. BROWNSTEIN. Yes.

Mr. EVINS. How much?

Mr. DRIVER. About $750 million every year under guardianship.

Mr. EVINS. Number of minors, awards, and incompetent veterans as indicated in the summary will continue to increase due to minor beneficiaries becoming eligible for pensions.

Mr. GLEASON. Mr. Evins, we look after about three-quarters of a billion dollars in this guardianship program in the estates of our wards.

Mr. DRIVER. Assets under the program are $757 million, Mr. Evins.

SUPERVISION OF GUARDIANSHIPS

Mr. BOLAND. How closely do you supervise these guardianships?

Mr. BROWNSTEIN. Well, if it is the case of the natural parent, who is the guardian, Mr. Boland, and we determine that the funds are needed for the care and maintenance of the child, then we leave it pretty much up to the natural parent to make the disbursements as the parent sees fit. On the other hand, there are a good many cases where the widow has remarried, and if we believe that properly the fund ought to go to the maintenance of the child they do, but in many of these cases we try and have some of the fund conserved for the child's future education.

Mr. BOLAND. Do you find many discrepancies among guardians?

Mr. BROWNSTEIN. Relatively few.

Mr. GLEASON. Last year there were unsatisfactory conditions affecting beneficiaries in 8,549 cases. They were found and corrected during the course of over 56,000 investigations.

Mr. BOLAND. That is a pretty high number.

Mr. GLEASON. Yes, it is.

Mr. BOLAND. How often do you check the activities of these guardians and their handling of these accounts?

Mr. BROWNSTEIN. We get an annual report, an annual accounting.

Mr. BOLAND. How do you know whether or not the annual accounting is correct?

Mr. BROWNSTEIN. At least every 3 years we make a field examination.

Mr. THOMAS. Will the gentleman yield?

Mr. BOLAND. Yes, sir.

Mr. THOMAS. Off the record.

(Discussion off the record.)

FIELD EXAMINATIONS

Mr. EVINS (reading):

Field examinations are conducted for purpose of obtaining evidence relating to claims for VA benefits; qualifications of proposed fiduciaries and guardians; the needs of minors; the income and expenditures on behalf of wards; the performance of social surveys conducted to develop social and economic information essential in the supervision of VA beneficiaries. The decrease in field examinations for 1963 is attributable to the decline in guardian-custodian investigations due to the substitution of initial development by correspondence in all cases in which the adjudication officer makes award to the parent custodian of record before referral to the chief attorney. The increase for 1964 is attributable to resumption of full interim social surveys for new cases not previously investigated.

How often do you make these examinations?

Mr. BROWNSTEIN. There is an audit of the report annually, and at least every 3 years there is a field examination.

Mr. EVINS. Local travel for this work in the attorneys' office is $100,000. Employees' travel is $570,000, for a total of $670,000 in 1963.

One of these figures at the middle of page 8–20 represents personal compensation and personal benefits, $11, $12, and $12 million.

Mr. BROWNSTEIN. That is salary plus fringe benefits.

Mr. EVINS. In the chief attorney's activity?

Mr. BROWNSTEIN. Yes, sir.

Mr. EVINS. Here, again, your numbers of employees are down but the compensation is up by $40,000.

GUARDIANSHIP PROGRAM—TOTAL COSTS

Mr. THOMAS. Mr. Evins, could we get in the record at this point some reasonably substantial figure on what part of compensation and pensions goes to minors?

Mr. GLEASON. About $250 million a year go to the wards.

Mr. THOMAS. That is to the wards, one-quarter of a billion, divided into approximately how many cases?

Mr. BROWNSTEIN. 590,000 wards.

Mr. THOMAS. What is the average amount involved?

Mr. BROWNSTEIN. About $425.

Mr. EVINS. 590,000 beneficiaries at one-quarter of a billion annually?

Mr. GLEASON. Yes, sir; that is the amount that is paid out to them, Mr. Evins. This does not include the cost of administration.

Mr. EVINS. Most of this work is really done by the guardian, the bank or the local attorneys, and your chief attorney's staff is really sort of a supervisory agency to check on it?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What are the administrative expenses of handling that three-quarters of a billion dollars that is in estates for benefits; is it broken down under the chief attorney's office?

Mr. GLEASON. I do not find it broken down.

Mr. THOMAS. What does it cost?

Mr. EVINS. $12,111,000. That is the combined cost for salaries and benefits.

Mr. BROWNSTEIN. 8–18 has the total cost, the estimate for 1964 being $12,899,000.

Mr. GLEASON. That is not for the guardianship program.

Mr. BROWNSTEIN. This is the total estimate for chief attorneys.

Mr. GLEASON. What they are looking for is the guardianship.

Mr. DRIVER. About 75 percent of the total of the chief attorney's workload would be devoted to the guardianship program.

Mr. THOMAS. Is any other cost related to it besides the chief attorney's?

Mr. DRIVER. In the guardianship program?

Mr. THOMAS. Yes.

Mr. DRIVER. There would be other costs in this sense, costs in the adjudication division to decide the claims, costs at the computer center in Chicago to make the payments every month, there would be costs in the Post Office and Treasury Department. In that sense there would be costs all through.

Mr. THOMAS. There are at least four different segments touch this besides the chief attorney.

Mr. DRIVER. You start with the contact office where they come for information, go to the adjudication division, cost in settling the case, cost in the finance activity in making the payment.

Mr. THOMAS. There are at least five divisions, but about 75 percent of the cost goes to the chief attorney in the region?

Mr. DRIVER. Yes, sir.

Mr. THOMAS. What would you say that the wrap-up cost is to administer that $750 million out of how many thousand cases——

Mr. GLEASON. About 590,000.

Mr. THOMAS. What would you say?

Mr. DRIVER. About $9 or $10 million.

Mr. THOMAS. It is more than that. Your attorney's cost is practically that.

Mr. DRIVER. That is the only one I am counting there.

Mr. THOMAS. I mean the whole wrapup cost of the five segments that touch it.

Mr. DRIVER. I think the best thing you could do would be to take the overall administrative cost of the agency, 3 percent, and apply it against the total. That would include everybody.

Mr. THOMAS. Around $20 million?

Mr. DRIVER. Three percent of three-quarters of a billion is 22½.

Mr. THOMAS. Does that sound reasonable to you, Mr. Jonas?

Mr. JONAS. No, it does not sound reasonable.

Mr. THOMAS. Why?

Mr. JONAS. If you will let me put something in the record I think I will demonstrate it. Will you yield?

Mr. EVINS. Yes.

LOSSES AND RECOVERIES FOR BENEFICIARIES

Mr. JONAS. I think we ought to put page 97 of the annual report in the record right at this point, Mr. Chairman. It shows the losses and recoveries for beneficiaries.

Mr. THOMAS. Read it. Read it into the record.

Mr. JONAS. It shows they had total losses last year of $217,696, defalcations and embezzlements of guardians accounted for $149,861, defalcations and embezzlements of legal custodians accounted for $67,-880, but they recovered, through the office of chief attorneys in the field, total recoveries amounted to $204,934.

You are spending $9,600,000 for that part of the work of the chief attorney or the office of the chief attorneys attributable to this guardianship work. You have 1,500 people doing it. You recover $204,000.

Mr. DRIVER. The smallest part of the work would be in treating that that goes sour. The largest share of the work would be in keeping track of the cases so that they do not go sour.

Mr. JONAS. You think the mere fact you are policing this field holds down the number of embezzlements?

Mr. DRIVER. No doubt about it.

Mr. JONAS. That is a serious indictment you are making of fiduciaries. You are saying if you were not policing this activity you would have a lot of bankers engaged in embezzlement.

Mr. DRIVER. Not necessarily bankers. This runs through the whole field.

Mr. JONAS. Fiduciaries. Aren't they all under bond?

Mr. DRIVER. No, sir. Only about half are under bond. The other half are natural parents who are custodians.

Mr. JONAS. In the natural cases, defaults are much lower than the regular guardianship cases in total?

Mr. DRIVER. That is true. I think perhaps the temptation would be less where there is a matter of blood involved.

Mr. JONAS. I think these figures are interesting, Mr. Chairman.

Mr. THOMAS. Mr. Jonas, what was the large figure that went sour?

Mr. JONAS. $217,696 of losses.

Mr. GLEASON. Of which there were recoveries.

Mr. JONAS. Recoveries of $204,934.

Mr. DRIVER. That is no doubt due to the bond.

Mr. THOMAS. That represents 8,000 cases out of your 590,000.

Mr. DRIVER. That went sour; yes, sir.

Mr. THOMAS. What percentage is that?

Mr. GLEASON. Actually, there was a loss of only $13,000.

Mr. JONAS. What percentage is that?

Mr. DRIVER. 590,000 under guardians.

Mr. JONAS. What percentage of that 8,000?

Mr. GLEASON. 8,000 went sour.

Mr. BROWNSTEIN. About 1½ percent. That 8,000 does not mean they all went sour. That means that we found something questionable in those 8,000 cases. This does not mean defalcation necessarily.

GUARDIANSHIP PROGRAM STUDY

Mr. JONAS. You said yesterday, Mr. Brownstein, that you had a program of study underway right now to see if you could not streamline this activity.

Mr. BROWNSTEIN. Yes, sir.

Mr. JONAS. I would much rather have 10 policemen on a beat and not have any crime than have a lot of serious crimes without any policemen, but it strikes me that this is a pretty expensive operation. There ought to be some way to keep in closer touch with it, in view of the fine record that has been established, without spending this amount of money.

Mr. DRIVER. We hope to find guidelines in it. You will notice in the workload figures on 8-18 that there is a reduction in the number of accounts to be audited for 1964. This is an effort on the part of the Veterans' Administration to recognize this fact.

Mr. THOMAS. What will you spend for this study?

Mr. BROWNSTEIN. $150,000 in 1964.

NATURE OF EMBEZZLEMENT CASES

Mr. JONAS. Your defaults occur principally in the court-appointed guardianship cases and not in the natural-guardianship cases?

Mr. DRIVER. I would say the serious money embezzlements occur in the court-appointed guardianship cases, not in the natural ones.

Mr. JONAS. They are under bond.

Mr. DRIVER. That is why we recover.

Mr. GLEASON. We had recoveries of $204,000.

Mr. DRIVER. The difficulty we run into is where there is a natural parent and there is remarriage and other children and we find the mother or father is spending money for other members of the family. We do not permit this. We do not consider this embezzlement as we would in a case where the court-appointed guardian runs off with the money.

Mr. BROWNSTEIN. But they would be included in those 8,000 cases.

Mr. EVINS. You have 1,510 employees. How many of this number would be attorneys?

Mr. BROWNSTEIN. 667.

Mr. EVINS. 667 are attorneys. Would they be under the direction of the General Counsel here in Washington?

Mr. BROWNSTEIN. Their opinions are reviewed by the General Counsel.

Mr. THOMAS. Would you allow a slight interruption here?

Mr. EVINS. Mr. Chairman.

Mr. THOMAS. Just how serious are these 8,000 cases now that the Chief Attorney says are default cases? I have a feeling when you look into it, there won't be any substance in 75 percent of them but it makes a big workload. After all, it requires some looking into of some trivial amount. How serious do you find these things?

Mr. BROWNSTEIN. Most of them involve the question of conservation of funds for the future education of the child.

Mr. JONAS. We can pay up all these defaults and save about $10 million a year.

Mr. BROWNSTEIN. That is not included in there, Mr. Jonas. These are cases where we make an examination and we find that the funds are being used for purposes other than the care and maintenance of the child and we then say, "Here is what is going to have to be done. You are going to have to conserve a certain amount of this for the future education," and maybe we will then go in and have a court-appointed guardian.

Mr. WYMAN. What portion of the workload of the Chief Attorney's office is devoted to these cases?

Mr. BROWNSTEIN. About 75 percent.

Mr. THOMAS. That is the largest part of the workload.

Mr. EVINS. In the field.

Mr. DRIVER. Yes, sir.

Mr. THOMAS. The central office does not touch it. They are hardly on speaking terms.

That is the duty of the Chief Attorney's office and they do it.

Mr. DRIVER. That is right. Our principal effort is to conserve the money and see that it isn't spent. We feel there is where we make the biggest contribution for the future of the child.

Mr. EVINS. How many financial institutions besides natural parents are the legal guardians or custodians of these funds besides your 667 attorneys? How many others have control?

Mr. BROWNSTEIN. Probably half of our guardianship cases are covered by court-appointed guardians.

GUARDIANSHIP SUPERVISION

Mr. EVINS. You have a large supervisory group besides your own field attorneys.

Mr. DRIVER. In the court-appointed guardian.

Mr. EVINS. Yes.

Mr. DRIVER. That is true.

Mr. BROWNSTEIN. They have to make periodic reports to the court. That is correct.

Mr. THOMAS. Who is in any better position than those judges to give you some good, sound substantial advice?

Mr. DRIVER. We rely heavily upon them.

Mr. THOMAS. If you are going to do this thing, why not call in a blue-ribbon committee of judges? They would be glad to serve. As the Administrator suggested yesterday, suppose it costs $100 a day. It would not take them many days to sit down and write out a very comprehensive report and some good advice. It is not going to cost you $140,000 by a whole lot in my judgment.

You will get better advice. Think it over. I am not running your show. Just think it over.

Mr. DRIVER. The question we are trying to solve is whether we can diminish the amount of supervision and get the same general results that we have been getting and if we can diminish it how do we go about it; in other words, do we make spot checks every few years instead of having a regular recurring check on these accounts, and this is the reason the study is being made.

Mr. WYMAN. Mr. Chairman, will you yield?

Mr. EVINS. Mr Wyman?

AUTHORITY FOR GUARDIANSHIP PROGRAM

Mr. WYMAN. Is the decision as to whether to do this on a continuing basis as a matter of policy a decision that is made by the VA itself or are you implmenting something that Congress has told you you have to do?

Mr. DRIVER. About 25 years ago there was a severe scandal in this program. We found that there were a number of men who had secured the guardianship of many, many cases and they were milking the accounts dry and not saving any of the money, et cetera, paid a little attention to it or actually taken the money.

Mr. THOMAS. Mr. Driver, give him a quick answer to his question.

Mr. DRIVER. I would say we are operating this program at the specific direction of Congress as a result——

Mr. THOMAS. It is purely an administrative matter. You have been charged with doing this job right in your day-to-day rules and regulations, promulgated by the administration, carrying out the intent of Congress.

Mr. DRIVER. That is right. No question.

Mr. JONAS. There is not any specific statutory requirement for you to follow up this money once a legal guardian is appointed.

Mr. DRIVER. No.

Mr. JONAS. That is sort of empire building on your part, or assuming the responsibility of following the funds to the ultimate beneficiary, is it not?

Mr. DRIVER. No, sir. We administer this program in accordance with the Uniform Guardianship Act in every State. We do not do more than we are required to do, especially where there is a court-appointed guardian.

Mr. JONAS. You are doing more than you are required to do.

Mr. DRIVER. We are getting an annual accounting.

Mr. JONAS. Supervision is something you elect to do. I am not quarreling with your decision. I do not want you to say it is something you are required to do by law.

Mr. DRIVER. We are not required to do it by law. Most of the supervision is in those cases where we have a custodianship as distinguished from a guardianship. We do not have a court-appointed guardian. We have a natural parent who is custodian. Those are the cases where we exercise most of our supervision. In the other cases it is the court doing it.

Mr. JONAS. Is there no requirement on the part of the custodian to make annual reports to the local court?

Mr. DRIVER. No, there is not.

Mr. JONAS. He reports to you?

Mr. DRIVER. Yes, sir; in the guardianship cases the fund is charged 5 percent to pay the guardian. In the custodian cases there is no charge. We encourage custodians for this reason.

Mr. BOLAND. Yet the defalcations and embezzlements are much heavier in the guardians than legal custodians. You might expect the reverse to be true.

Mr. DRIVER. Not really; you have the natural parent involved. The thing that would go wrong would be as I indicated earlier; she might be spending some of the money for a new member of the family, a child as a result of remarriage. You would not find an actual embezzlement.

Mr. JONAS. Commingling of funds.

Mr. DRIVER. Yes, sir.

Mr. BROWNSTEIN. It would be harder to find a defalcation in that state.

Mr. DRIVER. Our effort is to get it spent on the son of the dead veteran.

Mr. EVINS. You would like to set up guidelines but it varies from area to area, based upon the court, et cetera.

Mr. DRIVER. We have a uniform statute that has been enacted in about 45 or 46 States and there we have uniformity where you have a court-appointed guardian.

Mr. JONAS. That does not take care of custodian cases.

Mr. DRIVER. No, sir.

Mr. EVINS. Some mother writes in and says: "I need more money. Can you have some more of this fund released?" and the guardian looks it over and says: "I think in this case we can increase it by $28 a month."

Mr. DRIVER. Yes, sir; but she has to give reasons for it.

Mr. WYMAN. You could not do this on a spot-check basis?

Mr. DRIVER. We are trying to find out if we can.

Mr. GLEASON. This is the study. We are trying to find out if we can or cannot.

Mr. BROWNSTEIN. We have already reduced the number of social surveys and the frequency of our social surveys in this area. We have found that a lesser degree of frequency is adequate to accomplish our purpose. We are looking into these other areas to see how far really we can go and still accomplish the purpose.

Mr. EVINS. This needs close supervision to avoid any further outbreaks of scandals or defaults.

If there are no further questions, we will turn to the regional contact offices.

FIELD CONTACT OFFICES

Put page 8-22 in the record.

(The page referred to follows:)

DEPARTMENT OF VETERANS' BENEFITS

Contact, field, $7,543,900—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	1,244	1,047	937	−110
Personnel compensation	$8,157,119	$7,316,715	$6,844,870	−$471,845
Personnel benefits	626,987	556,085	520,030	−36,055
Total personal services and benefits	8,784,106	7,872,800	7,364,900	−507,900
Public Law 87-793 pay increase		(310,810)	(518,900)	(+208,090)
Travel and transportation of persons	192,140	216,000	160,000	−56,000
Transportation of things	29,365	31,000	19,000	−12,000
Total cost	9,005,611	8,119,800	7,543,900	−575,900
Public Law 87-793 costs		(310,810)	(518,900)	(+208,090)

Summary of major workloads

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Personal interviews	3,381,508	2,852,000	2,573,000
Telephone interviews	3,259,080	2,642,000	2,213,000
Applications and forms prepared	2,026,842	1,657,000	1,477,000
Correspondence prepared	961,906	789,000	691,000
Counter interviews	491,941	295,000	247,000

The contact program provides personalized service to veterans, their dependents, and beneficiaries by furnishing information, assistance, and advice relating to rights and benefits under laws administered by the Veterans' Administration.

Mr. EVINS. Contact in the field: $7,543,900 for this work. This is advisory and opinions and giving of information in various contact offices. The average employment in 1962 was 1,244; in 1963, 1,047; in 1964 it is reduced to 937, or a reduction of 110 personnel.

This is the result of closing of how many of your contact offices in the last year?

Mr. GLEASON. 161 a year ago, and 26 this year.

Mr. EVINS. How many are you maintaining open now?

Mr. BROWNSTEIN. Nine, sir.

Mr. GLEASON. All of those have some other aspect of the VA associated with it.

Mr. THOMAS. Do you find a comparable reduction in printing and binding?

Mr. EVINS. Personnel compensation is down $471,000; personnel benefits are down $36,000. Of course, your pay increase is in here.

This ups it $208,000. Then there is transportation of persons, down $56,000; transportation of things down $12,000. The total overall cost of this program is reduced from $8,119,000 to $7,543,000, or a reduction of a half million dollars—$575,900. It is correspondingly being phased out. Even the table below on summary workload shows that personal interviews are decreasing from 3.3 million to 2.8 million to 2.5 million; telephone interviews are down to 2.2 million; and application and forms prepared have been cut almost in half. Correspondence has decreased and counter interviews are down from 491,000 in 1962 to 247,000 in 1964.

Mr. GLEASON. Would you be good enough to insert that figure on correspondence prepared, Mr. Evins: from 962,000 down to 691,000?

Mr. THOMAS. Repeat that again, Mr. Administrator.

Mr. GLEASON. Correspondence prepared for fiscal year 1962 was 962,000, and in 1964 it is estimated at 691,000.

Mr. EVINS. You are still doing a lot of letterwriting.

Mr. GLEASON. Yes, sir; but we are cutting down.

Mr. THOMAS. Can you find that printing and binding item in there?

Mr. BROWNSTEIN. They distribute other people's Mr. Chairman.

Mr. DRIVER. They do not have any of their own, in this program, sir.

Mr. THOMAS. That is a big source of distribution, is it not?

Mr. DRIVER. Yes, sir.

Mr. THOMAS. In the offices you close down, do you take their share and put it in the wastepaper basket?

Mr. BROWNSTEIN. We bring it to the regional office. They distribute it.

Mr. EVINS. Are there further questions on the contact offices? If not, we will return to compensation and pensions in the field, $33,109,000.

COMPENSATION AND PENSION, FIELD

Insert pages 8–24 and 8–25 in the record.

(The pages referred to follow:)

DEPARTMENT OF VETERANS BENEFITS

Compensation and pension, field, $33,109,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment	3,926	3,835	3,922	+87
Personnel compensation	$27,247,492	$27,854,000	$30,083,000	+$2,229,000
Personnel benefits	2,058,651	2,136,000	2,317,000	+181,000
Total personnel services and benefits	29,306,143	29,990,000	32,400,000	+2,410,000
Public Law 87-793 pay increase		(1,191,000)	(2,286,000)	(+1,095,000)
Travel and transportation of persons	44,900	70,000	35,000	−35,000
Transportation of things	26,194	50,000	20,000	−30,000
Other services	3,668	4,000	4,000	
Flags	602,007	625,000	650,000	+25,000
Total cost	29,982,912	30,739,000	33,109,000	+2,370,000
Public Law 87-793 costs		(1,191,000)	(2,286,000)	(+1,095,000)

Summary of major workloads

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
New claims—total	327,966	331,000	334,000
Disability	195,110	192,000	188,000
Death	132,856	139,000	146,000
Reopened claims—total	410,211	415,000	408,000
Disability	365,088	387,000	379,000
Death	45,123	28,000	29,000
Dependency and income claims—total	520,584	550,000	639,480
Disability	317,556	333,500	390,080
Death	203,028	216,500	249,400
Insurance claims	38,060	40,000	42,000
Burial claims	209,945	221,000	233,000

Distribution of employment by activity

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Office of adjudication officer	534	525	534
Authorization	1,664	1,675	1,693
Rating board	742	690	710
Clerical and stenographic	986	945	985
Total	3,926	3,835	3,922

This program activity is responsible for the administration and adjudication of compensation, pension, and other related benefits and allowances that are payable to living veterans, and dependents and beneficiaries of deceased veterans.

Estimated future adjudicative work volumes are based on careful studies and projections of experience and trend data. These data relate to certain external factors, such as: (1) veterans and ex-servicemen in civil life, (2) running awards of compensation and pension, (3) new deaths, (4) members of the Armed Forces discharged, and (5) the number of insurance policies in force, all of which influence the workload to be processed by this program. The claims activity and the workload requirements resulting from these areas will be influenced by: (1) length of service of the veterans or ex-serviceman, (2) age groups and mortality rates, (3) type of benefit and allowance being received, and (4) veterans and dependents who have been denied claims or who have not filed claims.

Mr. EVINS. Average employment is up by 87; 1962, 3,926; 1963, 3,835; and for 1964, 3,922. This is increased by 87 to handle this work. Personnel compensation is up $2.2 million.

Personnel benefits is increased by $181,000. Iincluding travel and all other costs the increase is $2,370,000, including the pay increase of $1,095,000. This is an increase from $30.7 million to $33.1 million.

Does anybody want to comment upon the reason for these increases? The pay increase is a large item.

"STATEMENT OF CASE" REQUIREMENTS

Mr. BROWNSTEIN. The 87 people we discussed Monday; this is the preparation of the statement of the case.

This is going to be a very substantial workload, Mr. Chairman—the preparation.

Mr. THOMAS. Why?

Mr. EVINS. These are people in the field where your local board renders the decision and you have to prepare a statement of the case.

Mr. BROWNSTEIN. If the veteran expresses dissatisfaction with the decision of the determination of the local board.

Mr. EVINS. Ninety percent of them express dissatisfaction, do they not?

Mr. BROWNSTEIN. No, sir.

Mr. EVINS. How much?

Mr. BROWNSTEIN. We estimate there will be about 50,000 of them in 1964.

Mr. THOMAS. If I may interrup, Mr. Evins?

You have a good record. We are going down and down in personnel. We have this ADP center. We expect some big things from that. Why can't you absorb this little increase of 87? Every time you get a new activity, regardless of what it is, we have to go right to the budget and put it on the record and up it goes. Can you not absorb that and stand on one foot?

Mr. BROWNSTEIN. I think, Mr. Chairman, this is a very conservative estimate.

Mr. THOMAS. You are doing the same thing now and I expect it is far more expensive. I expect you have to write far more letters explaining why. You will write the veteran. He does not like it. You write the member. You write the central office here. You will get all of those letters back.

Mr. BROWNSTEIN. Even with the statement of the case we will continue to get letters of that kind, Mr. Chairman.

ADJUDICATION WORKLOADS AND COSTS

Mr. EVINS (reading):

Estimated future adjudicative work volumes are based on careful studies and projections of experience and trend data. These data relate to certain external factor, such as: (1) veterans and ex-servicemen in civil life, (2) running awards of compensation and pension, (3) new deaths, (4) members of the Armed Forces discharged, and (5) the number of insurance policies in force, all of which influence the workload to be processed by this program. The claims activity and the workload requirements resulting from these areas will be influenced by: (1) length of service of the veteran or ex-serviceman, (2) age groups and mortality rates, (3) type of benefit and allowance being received, and (4) veterans and dependents who have been denied claims or who have not filed claims.

Your chart at the bottom of 8-24 shows each category of work. New claims are up from 327,000 in 1962 to 334,000 in 1964. Reopened claims are down 7,000 to 408,000. The dependency and income claims go from 520,000 in 1962 to 639,000 in 1964; insurance claims are slightly up; and burial claims are also up.

Mr. THOMAS. Mr. Chairman, let me interrupt. Break down the new claims. I have looked all over the several pages now. On 8-24 you have new claims totaled and you break it down for disability and death, and disability for 1962 is 195,000. It goes down to 192,000 in 1963; it goes down to 188,000 in 1964. Can you break these new claims down between compensation and pensions and death?

Mr. FARMER. No, sir, not precisely; because, in the first place, the claim for compensation and disability pension is a claim for both; so when a man claims it he frequently claims both. Sometimes he is not too serious about his compensation claim. He is more interested, or we think so, in pension, based on what we think his entitlement is.

His actual claim is for both. The claim form includes both benefits. This is equally true of the death claim, although in the death claim we are able to detect more clearly whether or not the widow or child is seeking a service-connected death benefit or non-service-connected benefit.

NEW CLAIMS

Mr. THOMAS. Just what do you mean by "new claim"?

Mr. FARMER. A new claim is a claim from a man, or a claimant—we will stick to disability—from a veteran.

Mr. EVINS. For the first time.

Mr. FARMER. For the first time he has ever come to us and sought this benefit.

Mr. THOMAS. That means just what it says, then.

Mr. FARMER. Yes, sir.

Mr. THOMAS. There has not been any correspondence one way or the other heretofore.

Mr. FARMER. Not about this benefit. We do encounter a number of people, particularly World War II, who had a claim for training or maybe they had been hospitalized several years ago and they have a claim number but that does not mean they have had a claim for compensation or pension. I would agree with you this means exactly what it says. This is a new claim for compensation pension.

Mr. THOMAS. Where did these originate—World War I, World War II, or Korea?

Mr. FARMER. The source of them?

Mr. THOMAS. Yes.

Mr. FARMER. Across the board, actually. These figures here include claims from World War I, II, and Korea and peacetime. We get very few, virtually no new, claims from any earlier wars. When we do it is a claim from the Spanish-American War veterans.

COMPENSATION AND PENSION PAYMENTS

Mr. EVINS. The annual report shows that more than $3.6 billion annually is paid to veterans and their dependents for compensation and pension; 1.9 million veterans receive compensation; 1.1 million living veterans receive pensions; and dependents of 1,122,000 of deceased veterans receive compensation and pension.

They generally confuse pensions and compensations. They are not too much concerned just so they get a check, and it is increased.

Mr. FARMER. Well, sir, they frequently get pensions and then they will want compensation, or sometimes it is vice versa.

PROJECTED COST OF COMPENSATION AND PENSIONS

Mr. THOMAS. What does this figure look like projected into the future?

Mr. FARMER. I have some figures based on long-range planning.

Mr. DRIVER. In 1995 it will hit $5.9 billion.

Mr. THOMAS. Hit what?

Mr. DRIVER. $5.9 billion for compensation and pension.

Mr. THOMAS. What is the basis of that projection?

Mr. GLEASON. This is provided there is no additional increase in either compensation or pension.

Mr. THOMAS. Around $6 billion in 1995?

Mr. DRIVER. 1995. That will be about $1.28 billion for compensation and $4.69 billion for pension.

Mr. THOMAS. Under existing law?

Mr. DRIVER. Yes, sir.

Mr. JONAS. May I ask a question?

Mr. EVINS. Mr. Jonas.

NUMBER OF VETERANS AND DEPENDENTS ENTITLED TO COMPENSATION AND PENSIONS

Mr. JONAS. What is the total number of veterans and dependents who under certain conditions, would be entitled to compensation or pension; 70 million?

Mr. DRIVER. 68, I believe, at the moment.

Mr. JONAS. 68 million out of a population of 181 million. It is pretty nearly half the people in the United States.

Mr. DRIVER. Up above 45. It is 46.

Mr. GLEASON. About 47 percent of the population.

Mr. JONAS. Not that much. It is about 37 percent or 38 percent.

Mr. DRIVER. We have 22¼ million living veterans; 15.1 million World War II; 5.5 million Korean conflict; of which 4.5 had only service in Korea; 2.4 million World War I; 26,000 Spanish American; and 122,000 miscellaneous.

Mr. THOMAS. You have that in a table further over.

Mr. DRIVER. Yes, sir.

Mr. EVINS. Mr. Chairman, I think it would be appropriate to put some of this statement in the annual report in the record: Compensation and pension of veterans, page 51, and the charts on page 52 and 53, and then the tables on 215 and 216.

(The material referred to was subsequently placed in the record on pp. 838–842.)

Mr. EVINS. This information provides very important statistics.

Mr. THOMAS. He sets it out further in the justifications.

Mr. EVINS. This is required by statute, is it not, Mr. Administrator? And there is not too much Congress can do about this except talk about it.

Mr. GLEASON. That is correct, sir.

Mr. JONAS. Will you yield?

Mr. EVINS. Mr. Jonas.

Mr. JONAS. It might help a little if we would remember it when the next bill comes up on the floor.

Mr. GLEASON. This is something that the Congress will have to determine, Mr. Jonas.

SUPPLEMENTAL FUNDS FOR COMPENSATION AND PENSIONS

Mr. THOMAS. You might look into the appropriation for this year. You have a little deficiency around the corner.

Mr. EVINS. Where does that show, Mr. Chairman?

Mr. BROWNSTEIN. Page 9–1, I think.

Mr. THOMAS. For the record, what is the status of your 1963 funds in compensation and pensions, and what amount do you have pending in the way of a deficiency?

Mr. BROWNSTEIN. We are in for a supplemental of $42 million.

Mr. THOMAS. By virtue of what?

Mr. BROWNSTEIN. This was the compensation increase in the last session.

Mr. THOMAS. Last September.

Mr. BROWNSTEIN. It was effective October.

Mr. THOMAS. What did that do as a result of the new legislation?

Mr. BROWNSTEIN. It added $98 million a year to the service-connected disabled veteran.

Mr. JONAS. It applies only to service connected?

Mr. GLEASON. Yes, sir.

Mr. EVINS. The funds we have been talking about are, of course, for the payment of the personnel administering this program of $33 million. We get over to compensation and pensions later, which is the total amount of $3,921 million. In between, in the budget, is vocational rehabilitation personnel, $9,037,000. This is page 8–28. Do you want to go into this, Mr. Chairman?

OTHER OBJECT COSTS—COMPENSATION AND PENSION

Mr. THOMAS. Before you go to that, Mr. Evins, I believe it might be well to give these other objects a little attention. These are on 8–26, "Shipment of household goods, travel and transportation."

Mr. EVINS. Mr. Budget Officer, you required $50,000 for shipment of household goods in 1963 and you are going to ask for $20,000 for next year. Why did you decrease that by $30,000?

Mr. BROWNSTEIN. Well, in 1963 there were the transfers from Manila.

Mr. THOMAS. Let us get rid of that Manila business.

Mr. GLEASON. You cannot do that until 1970, Mr. Chairman.

Mr. EVINS. You explained that yesterday, I think. Are there further questions on "Transportation of things"?

VOCATIONAL REHABILITATION AND EDUCATION

Mr. EVINS. Insert 8–28, 29, and 30 in the record.

(The pages referred to follow:)

DEPARTMENT OF VETERANS BENEFITS

Vocational rehabilitation and education, field, $9,037,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	802	651	580	−71
Personnel compensation	$5,989,576	$5,175,000	$4,916,000	−$259,000
Personnel benefits	450,736	391,000	370,000	−21,000
Total personal services and benefits	6,440,312	5,566,000	5,286,000	−280,000
Public Law 87–793 pay increase		(215,000)	(346,000)	(+131,000)
Travel and transportation of persons	509,787	582,000	616,000	+34,000
Transportation of things	5,887	7,000	16,000	+9,000
Other services	1,961,707	1,930,000	2,219,000	+289,000
Grants to States	1,086,303	1,000,000	900,000	−100,000
Total cost	10,003,996	9,085,000	9,037,000	−48,000
Public Law 87–793 costs		(215,000)	(346,000)	(+131,000)

Summary of major workloads

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
A. MONTHLY AVERAGE IN TRAINING, READJUSTMENT TRAINING, CH. 33			
Korean conflict:			
Higher learning	60,332	33,300	18,200
Below college	25,655	13,400	6,950
Correspondence	7,371	4,300	2,460
On farm	1,641	500	170
Job training	1,450	500	220
Total	96,449	52,000	28,000
World War II	7		
Total, readjustment training	96,456	52,000	28,000
Vocational rehabilitation, ch. 31:			
Higher learning	1,370	1,875	3,400
Below college	2,560	2,450	3,500
On farm	252	185	200
Job training	776	690	900
Total, vocational rehabilitation	4,958	5,200	8,000
War orphans, ch. 35:			
Higher learning	10,221	11,800	10,200
Below college	2,642	3,200	2,800
Total, war orphans	12,863	15,000	13,000
Total, all trainees	114,277	72,200	49,000
B. COUNSELING CASES DISPOSED OF			
Veterans' Administration	25,228	21,000	15,000
Contract (fee basis)	10,226	19,500	33,000
Total	35,454	40,500	48,000

Distribution of employment by activity

Activity	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Office of the Chief	84	58	46
Benefits and facilities	312	211	171
Vocational counseling, training, and adjustment	406	382	363
Total	802	651	580

This program activity is responsible for counseling, enrolling, and supervising the rehabilitation or training of veterans and war orphans entitled to these benefits under the Servicemen's Readjustment Training Act, the War Orphans' Educational Assistance Act, and the extension of vocational rehabilitation benefits (Public Law 87-815, dated Oct. 15, 1962) to qualified ex-servicemen with service-connected disabilities resulting from service after World War II and before the Korean conflict or after the Korean conflict.

The employment requirements for fiscal years 1963 and 1964 are related to the workload items reflected in the foregoing table. The manpower requirements are affected by: (1) The distribution of trainees in readjustment, vocational rehabilitation, and war orphans program; (2) the number of potential veterans eligible to initiate training, or who will become eligible upon separation from the Armed Forces, and the probable rate at which they will enter training; and (3) the extent to which veterans are expected to remain in training in successive fiscal years.

Mr. EVINS. Vocational rehabilitation and education. Isn't this service declining somewhat, Mr. Brownstein?

Mr. BROWNSTEIN. Yes, sir, it is, very sharply, except for the legislation passed during the last session that authorized vocational rehabilitation for peacetime veterans.

Mr. EVINS. Average employment is down, personnel compensation is down, benefits are down, grants to States are down. There are three items substantially up: transportation, other services, and pay increases. The total is down from $9,085,000 to $9,037,000.

Monthly average in training—in higher learning you have 18,200; below college, 6,950; correspondence, estimated, 2,460; on the farm, 170. You are training enough of those boys on the farm.

Mr. THOMAS. I noticed that, too.

(Discussion off the record.)

Mr. JONAS. Will the gentleman yield?

Mr. EVINS. Yes.

INCREASE IN COUNSELING FEES

Mr. JONAS. Give us a little information on these other services. That is the only item in there that you have a substantial increase for.

Mr. BROWNSTEIN. That is principally counseling fees, Mr. Jonas. We are going more and more toward fee basis counseling by guidance centers instead of having our own staff counselors. On page 8–29 you will see that in 1962, the VA itself counseled 25,000 veterans and there were 10,000 counseled on a contract basis.

Mr. JONAS. What was the result of that counseling?

Mr. BROWNSTEIN. This then resulted either in the veteran entering training or in a relatively few of the cases he did not enter, based on the advice given to him by the counselor. In most cases, what the counselor does is advise him as to the course of training that he ought to pursue.

He sees that he does not get in over his head.

Mr. JONAS. Who are your fee counselors?

Mr. BROWNSTEIN. These are universities.

Mr. JONAS. What do you do, send the veteran to the university?

Mr. BROWNSTEIN. Yes, sir.

Mr. JONAS. You give him travel and subsistence?

Mr. BROWNSTEIN. Yes, sir.

Mr. JONAS. To go and consult the vocational training people?

Mr. BROWNSTEIN. The counselor at the guidance center at the university.

Mr. JONAS. Does every State university have such a center?

Mr. BROWNSTEIN. No, sir. We have contracted with a number of them. There are some that we would like to have that we have not been able to get because they do not have enough counselors to take care of their own students.

Mr. JONAS. What do you pay them for consultation?

Mr. BROWNSTEIN. It will vary. The maximum we pay is $75. It will average at about $45.

Mr. JONAS. How long does he spend with each veteran?

Mr. BROWNSTEIN. Generally it is at least an all day proposition. In many cases they come back.

Mr. JONAS. $75 a day is pretty good pay, is it not?

Mr. BROWNSTEIN. That is one university. It is the top. The average is $45.

Mr. JONAS. How long does he spend on an average with a veteran, an hour?

Mr. BROWNSTEIN. No, all day.

TRAVEL COSTS—VOCATIONAL REHABILITATION

Mr. JONAS. What does your travel cost in this field?

Mr. BROWNSTEIN. The total—I cannot break that down for you at the moment.

Mr. MONK. $360,000 for 1964.

Mr. JONAS. That is for veteran travel?

Mr. MONK. Beneficiary travel, yes, sir. This is where we pay roughly 5 cents a mile.

Mr. JONAS. Is that for travel from home to the counseling center?

Mr. MONK. And return.

Mr. JONAS. Have you not increased that? Is it still 5 cents a mile?

Mr. MONK. It is still 5 cents a mile.

Mr. EVINS. We passed a new law on that last session did we not? Wasn't there an amendment as to how much was authorized?

Mr. GLEASON. That was for Government employees.

Mr. MONK. This is set by Executive order.

Mr. JONAS. Who gets this $45 average, the university or the counselor?

Mr. BROWNSTEIN. We contract with the university.

VETERANS RECEIVING COUNSELING

Mr. JONAS. How many people do you have taking such counseling service now?

Mr. BROWNSTEIN. We estimate—on a fee basis?

Mr. JONAS. Yes.

Mr. BROWNSTEIN. We estimate in 1964 there will be 33,000.

Mr. JONAS. How many are you servicing with you own counselors?

Mr. BROWNSTEIN. 15,000 in 1964.

Mr. JONAS. Twice as many on a fee basis?

Mr. BROWNSTEIN. Yes.

Mr. EVINS. You have already brought out that the beneficiary travel cost next year will be $34,000 increase.

SCOPE AND BENEFITS OF VOCATIONAL REHABILITATION AND EDUCATION PROGRAM

Mr. Brownstein, give us a little wrap-up statement as to the number of veterans that have been trained under this program. We all know that it has been of great benefit in raising the educational level of the Nation and giving skills and job training at below college level and college level in various trades. We know it has been invaluable. There has been some loss and some waste, but it has been one of the great programs. Give us a statement for the record on the number that have taken it and a summary statement.

Mr. BROWNSTEIN. The total who have trained under the vocational rehabilitation program, World War II veterans, 616,000, Korean veterans, 69,000; readjustment training, 7,800,000 World War II veterans, 2,375,000 Korean veterans and war orphans totaling 43,000.

Mr. EVINS. Give us the total of all of these who have taken this training.

Mr. BROWNSTEIN. The total is about 11 million.

Mr. EVINS. As I understand more than 11 million have taken some type of training under this program?

Mr. BROWNSTEIN. Yes, sir.

Mr. GLEASON. Mr. Evins, you might be interested to know we believe we have the figures to substantiate what I am going to say, and that is that the U.S. Government has already recouped all of the money spent under the GI bill because of the training that they received under this program they are paying higher income taxes.

Mr. EVINS. More than that, it elevated their lives and education and has given them skills and job opportunities rather than just under the old formula, which paid a pension and to let them buy a car which they often wrecked. This has given them something for the future.

Mr. BROWNSTEIN. The total cost of this, Mr. Evins, in direct benefit and administrative cost is about $21,500 million.

Mr. EVINS. Tell us about your oversea war orphans education training program. We passed this law last year. How extensive is it? How many are participating, how much is it costing, and how is it broken down between this country and overseas?

Mr. GLEASON. There are only about 2,000 over there, I believe.

Mr. BROWNSTEIN. Those are the ones in Manila.

Mr. GLEASON. Could we give you a horseback opinion, Mr. Evins? It is about 2,000. About 98 percent of them are in Manila, sir.

Mr. BROWNSTEIN. Therefore very few war orphans are in training overseas.

Mr. EVINS. Are there further questions on this training program?

LOAN GUARANTEE

Insert pages 8–35, 36, and 37 in the record.

(The pages referred to follow:)

DEPARTMENT OF VETERANS' BENEFITS

Loan guarantee, feld, $20,634,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment	2,559	2,719	2,650	−69
Personnel compensation	$15,679,132	$17,388,000	$17,753,000	+$365,000
Personnel benefits	1,187,897	1,337,000	1,383,000	+46,000
Total personal services and benefits	16,867,029	18,725,000	19,136,000	+411,000
Public Law 87-793 pay increase		(737,000)	(1,300,000)	(+563,000)
Travel and transportation of persons	534,854	585,000	585,000	
Transportation of things	13,291	13,000	13,000	
Other services	860,646	900,000	900,000	
Total cost	18,275,820	20,223,000	20,634,000	+411,000
Public Law 87-793 costs		(737,000)	(1,300,000)	(+563,000)

Summary of major workloads

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Appraisal request received (units)	335,788	335,000	300,000
GI loan applications received	196,440	215,000	198,000
GI loans closed	166,178	184,000	167,000
Direct loan applications received	21,470	26,300	25,000
Direct loans closed and fully disbursed	19,699	21,500	20,000
Average number of loans owned	223,290	235,200	250,000
Paraplegic grants disbursed	402	425	400
Defaults reported	107,192	105,000	101,500
Claims paid	19,154	19,600	16,850
Property acquisitions	21,165	24,400	19,900

Distribution of employment by activity

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Office of loan guarantee officer	221	210	210
Appraisal	575	556	507
Loan processing	562	565	517
Loan service and claims	825	858	854
Property management	376	530	562
Total	2,559	2,719	2,650

The principal aim of this program activity is to assist a veteran in obtaining credit on favorable terms which will permit him to shelter his family suitably or to begin or operate a business or farming venture. This objective is accomplished through the GI loan program. However, in the case where private capital has not been generally available for the purchase or construction of homes on GI loan terms, the Veterans' Administration is authorized to make direct loans to eligible veterans for the purchase or construction of homes or for the construction or improvement of farmhouses.

The assistance given veterans has been principally in the form of loans made by private lending institutions and guaranteed or insured by VA. These, as of June 30, 1962, had amounted to $53.2 billion, as to which the Government's initial contingent liability was $28.5 billion. Supplemental direct loans assistance had amounted to $1.8 billion.

As indicated by the foregoing, the program's operations in the main are directly related to, and, in fact, are derived from the levels of activity in the private real estate market and the availability of private capital for investment in mortgage loans. Equally important are economic conditions generally which exert strong influences on the ability of borrowers to repay loans, delinquent rates, foreclosure rates, and the liquidation of acquired properties.

The proportion of housing starts that will be submitted to VA for appraisal during fiscal year 1964 is expected to drop because of a smaller veterans' market due to the phasing-out of World War II eligibility. Appraisals made in connection with direct loans will be unchanged from fiscal year 1962.

New defaults are expected to decline moderately during fiscal year 1963 with a continuation of improvement in fiscal year 1964.

During fiscal year 1962, an unprecedented number of claims were filed and paid. Although fewer numbers of claims are projected in fiscal year 1964 than in fiscal year 1963, the management responsibility of the Government will be increased by reason of the larger inventory of properties stemming from claim payments in fiscal years 1962 and 1963 as well as the larger number of portfolio loans arising from the sale of these properties as well as the continuation of the direct loan program.

A substantial increase in property acquisitions occurred in fiscal year 1962. A further increase is projected in fiscal year 1963 because of economic dislocations which are particularly acute in certain areas. Improvement in economic conditions and the further aging of outstanding guaranteed or insured loans should have the effect of lessening acquisitions in fiscal year 1964. The larger number of property acquisitions in fiscal year 1963 is attributable to the fact that acquisition of a number of properties was pending at the close of fiscal year 1962.

Mr. EVINS. Department of Veterans' Benefits, loan and guarantee in the field. Cost of this program is $20,634,000 estimated for the next year. Average employment is down from 2,719 to 2,650, a decrease of 69 personnel. Here again there is the same pattern. Number of employees down, personnel benefits are up. The salary increase also brings an increase. Here is a summary of the workload. Under the loan guarantee program which we discussed quite at length, appraisal requests received, estimated to be 300,000; GI loan applications, 198,000; GI loans closed, estimated to be 167,000; direct loan applications received, estimated to be 25,000; direct loans closed and fully disbursed, 20,000. You mean you are going to receive 25,000. You are going to turn 5,000 down. You can tell that in advance based upon experience?

Mr. BROWNSTEIN. Yes, sir.

Mr. GLEASON. Some of them we would not necessarily have to turn down either, Mr. Evins. About half of the waiting list would not be interested by the time we reach them.

Mr. BROWNSTEIN. Another factor, too, Mr. Evins, a good many of the 25,000 applications we receive will not result in fully disbursed loans in the same year. This will be the case, for example, in the last quarter.

Mr. THOMAS. The only thing I do not like about your tables, you indicate that 1964 is going to be a smaller year than 1963, with the exception of foreclosures. That is one of the things that we watch.

Mr. BROWNSTEIN. We estimate a rather sharp decline in the number of property acquisitions, Mr. Chairman.

Mr. THOMAS. Four thousand.

Mr. EVINS. Defaults reported, 107,000, 105,000, 101,500. They are down. Property acquisitions in 1962 were 21,000; 1963, 24,400, and 1964, estimated to be 19,900.

You cut that down just a little.

Mr. THOMAS. Mr. Evins, will you yield just briefly?

Mr. EVINS. Yes, sir.

VOLUME OF WORK DONE IN LOAN GUARANTEE FIELD OFFICES

Mr. THOMAS. This work is done out of your 67 regional offices.

Mr. BROWNSTEIN. We have consolidated about 10, Mr. Chairman. We had 54 offices in fiscal year 1962.

Mr. THOMAS. Just for loan guarantee?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Can you submit for the record without too much trouble these 54 offices, showing in some 2 or 3 columns the amount of business done in each with your employment figure and then your foreclosures?

Mr. BROWNSTEIN. You mean the total number of guaranteed loans, direct loans, and the current employment figure?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. And your foreclosures. You can do it.

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. How much trouble will it be? You already have the information.

Mr. BROWNSTEIN. We have the information. It won't be any trouble.

(The information supplied follows:)

Loans, claims and foreclosures, and employment by office as of Dec. 31, 1962

Station	Cumulative home loans as of Dec. 31, 1962			Cumulative claims and foreclosures as of Dec. 31, 1962			Claims and foreclosures as a percent of loans	Loan guaranty employees as of Dec. 31, 1962
	GI	Direct	Total	Claims—GI loans	Direct loan foreclosures	Total		
Alabama: Montgomery	76,833	6,226	83,059	2,918	51	2,969	3.57	60
Arizona: Phoenix	37,393	1,404	38,797	733	4	737	1.90	31
Arkansas: Little Rock	27,798	5,575	33,373	596	22	618	1.85	27
California:								
Los Angeles	489,391	1,769	491,160	9,929	22	9,951	2.03	191
San Francisco	318,594	3,455	322,049	4,820	18	4,838	1.50	109
Colorado: Denver	89,551	3,833	93,384	1,120	48	1,168	1.25	58
Connecticut: Hartford	87,599		87,599	523		523	.60	16
District of Columbia: Veterans' Benefits Office	101,790		101,790	464		464	.46	25
Florida: St. Petersburg	157,513	4,716	162,229	4,735	22	4,757	2.93	115
Georgia: Atlanta	105,950	8,364	114,314	2,624	117	2,741	2.40	73
Hawaii: Honolulu	8,345		8,345	5		5	.06	4
Idaho: Boise	15,220	3,861	19,081	100	18	118	.62	19
Illinois: Chicago	231,381	8,575	239,956	3,934	174	4,108	1.71	110
Indiana: Indianapolis	113,058	7,351	120,409	995	155	1,150	.96	56
Iowa: Des Moines	68,761	5,021	73,782	333	17	350	.47	28
Kansas: Wichita	53,761	2,224	55,985	3,657	25	3,682	6.58	60
Kentucky: Louisville	45,339	10,242	55,581	763	106	869	1.56	43
Louisiana: New Orleans	76,270	5,668	81,938	1,605	78	1,683	2.05	50
Maine: Togus	26,517	2,865	29,382	851	56	907	3.09	23
Maryland: Baltimore	99,211	2,260	101,471	2,826	51	2,877	2.84	45
Massachusetts: Boston	335,057		335,057	5,013		5,013	1.50	72
Michigan: Detroit	228,298	6,424	234,722	9,088	153	9,241	3.94	165
Minnesota: St. Paul	131,442	12,552	143,994	1,139	131	1,270	.88	75
Mississippi: Jackson	34,787	6,694	41,481	512	81	593	1.43	40
Missouri:								
Kansas City	79,725	5,503	85,228	1,429	61	1,490	1.75	44
St. Louis	57,792	4,367	62,159	371	49	420	.68	36

Montana: Fort Harrison	11,888	3,563	15,451	37	45	82	.53	18
Nebraska: Lincoln	25,794	3,062	28,856	87	4	91	.32	18
New Hampshire: Manchester	35,946	----------	35,946	833	----------	833	2.32	13
New Jersey: Newark	282,457	----------	282,457	4,248	----------	4,248	1.50	60
New Mexico: Albuquerque	36,499	2,010	38,509	380	9	389	1.01	24
New York:								
Buffalo	121,037	754	121,791	477	14	491	.40	21
New York	479,200	860	480,060	3,214	18	3,232	.67	77
North Carolina: Winston-Salem	72,281	11,894	84,175	944	180	1,124	1.34	63
Ohio:								
Cincinnati	112,591	6,075	118,666	1,162	90	1,252	1.06	54
Cleveland	177,681	4,764	182,445	1,752	72	1,824	1.00	67
Oklahoma: Muskogee	99,804	4,703	104,507	1,663	19	1,682	1.61	49
Oregon: Portland	33,158	2,515	35,673	339	26	365	1.02	20
Pennsylvania:								
Philadelphia	230,194	----------	230,194	7,025	----------	7,025	3.05	80
Pittsburgh	137,202	3,792	140,994	1,369	85	1,454	1.03	43
Wilkes-Barre	79,601	2,211	81,812	1,084	28	1,112	1.36	25
Puerto Rico: San Juan	4,081	3,127	7,208	8	3	11	.15	16
South Carolina: Columbia	39,296	4,923	44,219	1,401	78	1,479	3.34	37
Tennessee: Nashville	97,312	6,289	103,601	1,340	79	1,419	1.37	46
Texas:								
Dallas	121,572	4,628	126,200	1,469	12	1,481	1.17	46
Houston	104,855	1,446	106,301	4,430	26	4,456	4.19	60
Lubbock	66,825	2,062	68,887	2,380	24	2,404	3.49	47
San Antonio	68,838	987	69,825	2,765	4	2,769	3.97	48
Utah: Salt Lake City	29,089	3,356	32,445	169	21	190	.59	22
Vermont: White River Junction	16,023	557	16,580	367	2	369	2.23	6
Virginia: Roanoke	89,716	9,292	99,008	793	97	890	.90	57
Washington: Seattle	117,482	3,879	121,361	2,312	79	2,391	1.97	46
West Virginia: Huntington	21,678	6,729	28,407	350	127	477	1.68	29
Wisconsin: Milwaukee	87,891	4,045	91,936	1,319	50	1,369	1.49	35
U.S. totals	5,897,367	216,472	6,113,839	104,800	2,651	107,451	1.76	2,702

Mr. THOMAS. Where are your large offices as far as the volume of work is concerned?

Mr. BROWNSTEIN. The largest are Los Angeles, Detroit, Boston; plus Chicago and New York, San Francisco and Newark.

Mr. THOMAS. What about Florida? How does it compare?

Mr. BROWNSTEIN. It is a large one, but it is not as large as the others I mentioned.

CONSOLIDATION OF OFFICES

Mr. THOMAS. Where were the offices located that you consolidated?

Mr. DERVAN. Providence into Boston; Albany and Syracuse into New York City; Wilmington, Del., into Philadelphia; Shreveport into New Orleans; Cheyenne into Denver; Sioux Falls and Fargo into St. Paul, Minn.; and Reno, Nev., into San Francisco.

Mr. THOMAS. It is a long way from Reno into San Francisco. What was the object of your consolidation? Was it purely an administrative effort to save money?

Mr. BROWNSTEIN. It was a combination thing, Mr. Chairman.

Mr. THOMAS. Was the workload in the offices you consolidated quite small?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Even in one of those small offices you have to have a certain number of experts, regardless of the workload?

Mr. BROWNSTEIN. This is the problem. You have a minimum staffing that is absolutely essential if you are going to maintain the function.

Mr. THOMAS. When were these offices consolidated?

Mr. BROWNSTEIN. We started in 1959, and Wilmington and Providence were consolidated that year. We had five consolidations in 1960 and two in 1962.

Mr. EVINS. What is the status of your direct loan fund?

Mr. THOMAS. We go into that in detail a little further along.

Mr. EVINS. We will talk about that later.

TRAVEL COSTS—LOAN GUARANTY

The other objects—travel, transportation of persons—for the past 2 years this has been about $57,000 and you are asking for $60,000 local travel; employee travel is $525,000 and $525,000.

When these veterans come in to see about a loan, either direct or otherwise, are they paid travel into the office?

Mr. BROWNSTEIN. No, sir. There is no occasion for them to come to see us.

Mr. EVINS. The employee goes to see him. Do you pay him?

Mr. BROWNSTEIN. No, sir. The employee is not ordinarily going out to talk about a prospective loan. Most of this is used in servicing, on our delinquent loans. Also employees go out to check on appraisers, compliance inspectors, to check on construction complaints.

Mr. EVINS (reading):

Travel of employees is required to accomplish, (1) operational duties for properties, proposed to be sold or purchased; (2) administration of minimum construction, land planning, and general acceptability standards; (3) construction compliance inspection activities; (4) the making and guaranteeing or insuring of loans; (5) the servicing of defaulted guaranteed or insured loans; (6)

the management of loan portfolio owned by VA and the servicing of accounts that become delinquent; (7) the management and disposition of acquired properties; and (8) the giving of assistance to physically handicapped veterans who desire to purchase or construct specially adapted housing.

PROPERTY MANAGEMENT

Mr. THOMAS. May I interrupt, please?

Out of your total employment this year of 2,719 against 2,650 next year, you set aside 530 people this year and 562 next year for property management. In 1962 it was 376. Just how do they operate?

Mr. BROWNSTEIN. Well, their function, of course, is to see to it that we take in a property, then rehabilitate it, get it into good shape and see that it is sold as quickly as possible. What they do is, after a property is acquired, or as soon as we are notified that we are acquiring a property, they see to it that somebody, a management broker out in the area, takes custody of it, see that if the pipes need draining this is done, protected against——

Mr. THOMAS. In your 54 offices on an average basis you have about 12 people in the office?

Mr. BROWNSTEIN. No. This will vary greatly.

Mr. THOMAS. I understand. I said on an average basis. In your large office that you mentioned a while ago I imagine you have 40 or 50 people.

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Just exactly what are they going to do?

Mr. BROWNSTEIN. They will get in touch with the management broker, tell him we are acquiring a property at a given address and to take custody over that property. Then they will see what repairs, what rehabilitation is necessary to it. After this is done the property will be priced and listed with sales brokers.

Mr. THOMAS. Where are your green sheets on this group? What are their backgrounds? Are they engineers, construction people, or what?

Mr. BROWNSTEIN. No; they are property management people.

Mr. THOMAS. They have to go in there and restore this property. The biggest part of their job is rehabilitation.

Mr. BROWNSTEIN. And sale.

GRADES AND TYPE POSITIONS—PROPERTY MANAGEMENT

Mr. THOMAS. Where is the green sheet on these people? Let us take a look at them.

Mr. BROWNSTEIN. The grades will range from grade 9 to grade 13 on these people, Mr. Chairman.

Mr. THOMAS. This is one of the most important functions in your office.

What information does your big chart show on it now?

Let us turn over here.

Mr. BROWNSTEIN. It won't show anything.

Mr. THOMAS. That is what I am concerned with.

Mr. BROWNSTEIN. This is the central office organization that we have on pages 1–2. We can give you a breakdown of their grades.

Mr. THOMAS. Give us a little information on it now.

Mr. BROWNSTEIN. Their background would have to be that of having managed and sold properties, real estate brokers. They have a background of this kind. Appraisers can be worked into property management representatives but the journeyman grade is grade 9 of the property management representative.

Mr. EVINS. It is not shown in the charts.

Mr. THOMAS. No. Here is the loan processing group, 565 in 1963 and 517 in 1964. Here is your appraisal group, 556 against 507 in 1964. Here is your Office of Loan Guarantee, 210 for 1963 and 1964.

Give us a general idea of the pay scale and your classification. It is fairly easy for anybody to go out to make a loan or issue insurance.

Mr. BROWNSTEIN. The loan guarantee officers will range in grade.

Mr. THOMAS. Are these two separate and distinct groups of personnel?

Mr. BROWNSTEIN. No, sir.

LOAN GUARANTEE FUNCTIONS

Mr. THOMAS. Do they overlap? Are they on speaking terms? Is the man who goes out and makes and processes the loan on speaking terms with the man who gets the loan and has to wrestle with it?

Mr. BROWNSTEIN. They dovetail. The man who makes the loan is the man who passes on the credit. If that man goes sour naturally you want to find out why.

Mr. THOMAS. You are jumping two or three very important steps in there. There is a little preliminary work before he passes on the credit.

Mr. BROWNSTEIN. Yes.

Mr. THOMAS. You have to value the property, the house and the land.

Mr. BROWNSTEIN. You start with raw land. Your first step, of course, is your subdivision analysis.

Mr. THOMAS. Who does that?

Mr. BROWNSTEIN. The appraisal section. You have to see that it is properly planned as to streets, sewer, water.

Mr. THOMAS. What is their classification?

Mr. BROWNSTEIN. First let me tell you the loan guarantee officers will range.

Mr. THOMAS. That is the crowd that makes or breaks you.

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. What is their classification?

Mr. BROWNSTEIN. We have a few at grade 15 and a few at grade 13 and the majority of them fall in grade 14. In appraisal, the chief of the construction and valuation section, we have some at grade 13, a very few at grade 11 and the majority of them fall into grade 12.

Under them, the journeyman appraiser, the journeyman construction analyst, is grade 9. We have some higher grade technicians in these two areas at grade 11.

Mr. THOMAS. Is the man who first gets the property a grade 9?

Mr. BROWNSTEIN. He is the man who makes the preliminary review of it.

Mr. THOMAS. When he gets these properties, what does he do with them? He inspects them. He says, "We will have to spend $500 on

this one, $1,000 on this one, $1,100 on this one. It will be spent in papering, painting, et cetera."

Mr. BROWNSTEIN. You are talking about reacquiring property.

Mr. THOMAS. Property management; yes.

Mr. BROWNSTEIN. They have specifications.

Mr. THOMAS. They are grade 9?

Mr. BROWNSTEIN. We get the recommendations of the management broker, to whom we have turned over the custody of the property, and he tells us what he thinks it needs.

PROPERTY MANAGEMENT FUNCTIONS

Mr. THOMAS. What does the property management crowd do?

Mr. BROWNSTEIN. They go out and look at the property, they see whether his recommendation is a sound one. They then get the specifications prepared. They police all of the costs that the management broker sends in. They talk to the sales brokers. They go around and see what the market is, find out what the sales prospects are.

Mr. THOMAS. How many of those management brokers or outside people do you have?

Mr. BROWNSTEIN. An unlimited number. We will appoint almost—I think the National Association of Real Estate Boards has 43,000 members and we will appoint any number of them, and probably have, as sales brokers, and some who do not belong to the association.

Mr. THOMAS. What about management brokers?

Mr. BROWNSTEIN. Management brokers we limit to the number we believe we need in the particular area.

Mr. THOMAS. How many of those do you have?

Mr. BROWNSTEIN. I cannot give you the precise figure on that, Mr. Chairman. My guess would be that around the country we would have perhaps a thousand.

Mr. THOMAS. What fee do you pay him?

Mr. BROWNSTEIN. He gets an initial inspection charge. The first time he goes out he makes his report. We will pay him, depending on the area, $7.50 to $10. Then we will pay a monthly management fee to him ranging from $2.50 to $7.50, and this will depend on the number of properties that he has, the number that there are in the particular area.

Mr. THOMAS. What does he do? He has a vacant house. What management service does he render?

Mr. BROWNSTEIN. He has to see to it that vandalism is not committed; that in the wintertime, if it is in the North, that the snow is removed; in the summer that the grass is cut. One other amount that we pay: We will pay him 10 percent of the amount of the cost of repairs or rehabilitating the property, but not to exceed $50.

Mr. THOMAS. What authority does he have? First, who appoints him?

Mr. BROWNSTEIN. The local office.

Mr. THOMAS. What yardstick do they use in appointing him?

Mr. BROWNSTEIN. They investigate him; get a credit report on him; see if he is a member of the local board; if he is properly licensed, et cetera; that he is financially responsible.

Mr. THOMAS. You have about a thousand of them?

Mr. BROWNSTEIN. This is a guess on my part, but yes.

Mr. THOMAS. Gentlemen, let us get some lunch and come back at 1 o'clock.

AFTERNOON SESSION

Mr. THOMAS. Gentlemen, will the committee please come to order? Let's finish our little discussion that we were engaged in during the lunch hour here on property management.

Take a look at your property and come to a conclusion on how much should be spent on it.

Mr. BROWNSTEIN. These are our property management representatives, Mr. Chairman.

Mr. THOMAS. They are grade 9?

Mr. BROWNSTEIN. Grade 9 is the journeyman level and there are some grade 11's.

Mr. THOMAS. Those people have a very important function now, because they have a lot of property on hand.

How much do you depend upon the property management?

Mr. BROWNSTEIN. We put a good deal of reliance upon our property management representatives, but they, of course, have to keep in close touch with the management brokers to see that they are doing the kind of job that is protecting the interests of the Government.

PROPERTY SALES

Mr. THOMAS. Then your broker turns it over to any of the brokers in the real estate fraternity who are qualified to go out and sell it?

Mr. BROWNSTEIN. No, sir; we do the actual listing and we send out the sales listing to all of the sales brokers in the area including probably the management broker. He probably is a sales broker as well.

Mr. THOMAS. Who does the actual selling?

Mr. BROWNSTEIN. Any real estate broker.

Mr. THOMAS. If anybody came into the office he could buy it right there, couldn't he?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Is all your property sold by real estate agents?

Mr. BROWNSTEIN. Almost all of it.

Mr. THOMAS. What do you pay them?

Mr. BROWNSTEIN. The going commission, but not in excess of 5 percent.

Mr. THOMAS. That commission is 5 percent, then?

Mr. BROWNSTEIN. In many areas it is now 6 percent.

Mr. THOMAS. But you don't pay over 5 percent?

Mr. BROWNSTEIN. That is right.

Mr. THOMAS. Your actual fee then is 5 percent?

Mr. BROWNSTEIN. Yes. We may get a farm property or a property in a remote area or one that is hard to move and in order to create an incentive on the part of the brokers we may agree to pay a higher commission there.

Mr. THOMAS. Your 5 percent is on the actual amount he gets for the property?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. What do these figures usually run?

Mr. BROWNSTEIN. What our average sales price is?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. About $11,500.

Mr. THOMAS. What is your statutory ceiling for capital investment?

Mr. BROWNSTEIN. We do not have any.

Mr. THOMAS. You do not have a statutory ceiling?

Mr. BROWNSTEIN. No, sir. The statutory ceiling is on the amount of the guarantee.

Mr. THOMAS. What is that?

Mr. BROWNSTEIN. $7,500, not to exceed 60 percent of the loan.

Mr. THOMAS. You pay him on the basis, not the amount of the guarantee but on what the property sells for?

Mr. BROWNSTEIN. That is correct.

Mr. THOMAS. What equity are your properties bearing now?

Mr. BROWNSTEIN. Do you mean what our down payments are on what we are selling?

FORECLOSURE EXPERIENCE

Mr. THOMAS. How long have these properties been in the hands of the veteran and how much equity does he have in it? You will have to come to an average figure on an annual basis.

Mr. BROWNSTEIN. Our experience has shown that most of our foreclosures take place during the first year and a half to 3½ years. And actually the equity that is built up is very little because the properties that we take in will have added to them ordinarily a substantial amount of accrued interest, maybe some past-due taxes. These properties, too, are not maintained properly and so you have a higher rate of depreciation on them than you would on others.

NATURE OF VA GUARANTEE

Mr. THOMAS. Your top investment then including your guarantee then is about $7,500; is that correct?

Mr. BROWNSTEIN. No, sir; we have properties that we will pay considerably more for than $7,500. Our maximum loss on any particular property——

Mr. THOMAS. I say your maximum investment through your guarantee, that is $7,500?

Mr. BROWNSTEIN. That is the maximum guarantee.

Mr. THOMAS. Where does the remainder of the capital investment come from?

Mr. BROWNSTEIN. The guaranty stands the first loss. So far as the lending institution is concerned. Let us illustrate with a $15,000 loan, a $7,500 loan guarantee. Fifty percent of this loan has been guaranteed. As long as the property remains worth $7,500 plus liquidation expenses, the lender is in the clear but we have to worry about recapturing as much of the $7,500 as we can. As a consequence we will take in the property, pay the lender his $15,000.

Mr. THOMAS. The lender and the VA are in a 50–50 position, but in actual practice the loss comes from the VA and it works out very well, doesn't it?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Where are the expenses charged for the salesmen's service? If the house is $12,000, and you have some back taxes then you have $700 or $800 for patching up and maintenance and so forth, you have your management broker's fee—where does that money come from?

Mr. BROWNSTEIN. The loan guaranty revolving fund.

Mr. THOMAS. Not out of this appropriation but out of the loan guarantee fund?

Mr. BROWNSTEIN. Yes, sir.

OFFICE SERVICES, FIELD

Mr. EVINS. Tell us about office services in the field. Rents, communications and utilities are down, printing and reproduction is down $15,000. Other services are down $31,000; supplies and materials dropped from $756,000 to $723,100, or $33,400; equipment is down $367,000, yet the total is up from $31,155,700 to $31,211,300.

Put pages 8–39 and 8–40 in the record.

(The pages referred to follow:)

DEPARTMENT OF VETERANS' BENEFITS

Office services, field, $27,199,000—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	4,992	4,675	4,576	−99
Personnel compensation	$24,682,163	$24,302,146	$24,820,470	+$518,324
Personnel benefits	1,921,719	1,866,854	1,912,130	+45,276
Total personal services and benefits	26,603,882	26,169,000	26,732,600	+563,600
Public Law 87-793 pay increase		(1,173,300)	(1,807,000)	(+633,700)
Travel and transportation of persons	259,996	365,400	346,700	−18,700
Transportation of things	43,646	47,400	37,100	−10,300
Rents, communications, and utilities	2,032,689	2,002,500	1,970,010	−32,490
Printing and reproduction	718,337	715,000	700,000	−15,000
Other services	471,757	416,800	385,790	−31,010
Supplies and materials	845,701	756,500	723,100	−33,400
Equipment	1,130,653	683,100	316,000	−367,100
Total cost	32,106,661	31,155,700	31,211,300	+55,600
Common service adjustment	−3,908,206	−3,953,300	−4,012,300	−59,000
Net cost	28,198,455	27,202,400	27,199,000	−3,400
Public Law 87-793 costs		(1,030,300)	(1,554,000)	(+523,700)

Summary of major workloads

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Finance: Portfolio accounts	2,605,454	2,810,600	2,940,000
Administrative:			
Incoming mail	52,161,000	50,231,000	49,880,000
Folder look-ups	32,381,960	31,394,760	31,390,000

Summary of average employment

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Office of Chief, Administrative Management or Service Division	119	119	119	
Finance	1,583	1,377	1,320	−57
Administrative	3,127	3,015	2,973	−42
Personnel	163	164	164	
Total office services	4,992	4,675	4,576	−99

GENERAL

Office services consists of employees who perform finance, administrative, and personnel work at each regional office under either separate divisions or one division (an administrative management or services division) depending upon the size of the office.

Personnel requirements for this activity are determined mainly by work measurement procedures and principles in conjunction with workloads anticipated by the substantive programs.

A substantial decrease in employment has been experienced during the past 3 years due mainly to the conversion of benefit payments to data processing and a continued decrease is projected for fiscal year 1964.

Mr. EVINS. Printing and reproduction is down, rents and utilities is down. Transportation of things is down. Here again the paid increase is up. This is a summary of requirements for other services in the field. The net cost is $27,199,000 for fiscal year 1964 as against $27,202,400 for fiscal year 1963, or a slight decrease of $3,400.

The next page shows the workload.

Mr. THOMAS. Would it not help the record a little bit if you would give the breakdown of an average office? This doesn't cover your 56 offices but it covers your 67.

Mr. BROWNSTEIN. Yes, sir.

Mr. EVINS. You have 99 less employees next year.

Mr. THOMAS. Take 2 or 3 minutes and take a look at the setup of the average office.

HOUSEKEEPING ACTIVITIES

Mr. EVINS. Tell us about the housekeeping activities of an average office, about how many people you have, what are their principal functions, what is the average grade of the employee in the office—give us a typical office picture.

Mr. BROWNSTEIN. Well this particular service covers our financial people, our administrative people, and those who handle the personnel work. They are either under a separate division, such as finance, administrative personnel, or in some of our smaller offices we have combined them into an administrative management or services division.

The personnel of course will vary from office to office. We have, on page 8–40, broken down the Office of the Chief of the Administrative Management or Service Division, the finance, the administrative, and personnel.

I can give you the grade structure in total of a pretty good sized regional office but this would cover all of the elements and would not break down specifically the number of people in this particular function.

Mr. EVINS. This is all of the personnel in all of your field offices?

Mr. BROWNSTEIN. Yes, sir; in this function. This is the housekeeping function. They are the supporting personnel, apart from those in the substantive programs.

Mr. THOMAS. Your biggest classification here is administrative. What do they cover and what do the green sheets show?

Mr. BROWNSTEIN. These are the messengers; many of our offices have typists and stenographic pools, file clerks. A good many of them too are in finance. They are finance clerks, accounting clerks.

NASHVILLE REGIONAL OFFICE

Mr. EVINS. In Nashville, Tenn., you have a very efficient man there, Kenneth Craft, who is the manager. How many people would he have in his office with him?

Mr. BROWNSTEIN. I would say that office has probably 265.

Mr. EVINS. You have two or three rating boards, a loan guarantee officer, and the administrative supporting services. Would that be a typical average field office?

Mr. BROWNSTEIN. Yes, sir. That does not have vocational rehabilitation and education. We have recently consolidated that.

Mr. EVINS. With Atlanta?

Mr. BROWNSTEIN. Yes, sir.

It had 362 employees on duty December 31, 1962. But this includes 97.4 in the outpatient clinic, so those in the Department of Veterans' Benefits total 265, roughly.

Mr. EVINS. What are the grades in this office?

Mr. BROWNSTEIN. The manager is a grade 15 and they will range on downward to grade 1. He has some of his division chiefs at grade 14, some at grade 13. Rating boards are 12.

Mr. EVINS. I notice there have been some consolidation efforts made here, Mr. Chairman. They transferred a whole division out of Nashville to Atlanta in their consolidation program.

Is that pretty general all over the country?

Mr. BROWNSTEIN. Yes, sir. In our Vocational Rehabilitation and Education Divisions we are now down to 29.

DISBURSEMENT

Mr. THOMAS. Does the administrative service group write checks for this area; where do the checks come from?

Mr. GLEASON. They come from Chicago.

Mr. THOMAS. They all come out of Chicago, all the benefit programs?

Mr. BROWNSTEIN. Compensation and pension and education. They are all issued out of Chicago.

Mr. THOMAS. What about your payroll checks for your own staff, where are they written?

Mr. BROWNSTEIN. That would be the Treasury Department. The nearest disbursing office.

Mr. THOMAS. Where are the rolls made up, though?

Mr. BROWNSTEIN. At the regional office.

Mr. THOMAS. And the rolls are made up for your ADP center in Chicago?

Mr. BROWNSTEIN. Incidentally, Mr. Chairman, we propose to put on the computer at Hines our payroll, too.

Mr. THOMAS. You are going to put what on the computer at Hines?

Mr. BROWNSTEIN. Our VA payroll.

Mr. THOMAS. Do you mean the whole payroll?

Mr. BROWNSTEIN. Yes, sir. All VA employees.

UTILIZATION OF TABULATING EQUIPMENT

Mr. GLEASON. This is where we can get greater utilization of our equipment, Mr. Chairman.

Mr. EVINS. Tabulating equipment comprises the major portion of the rentals from the fields. An effort is made to reduce the number of machines required by consolidating workloads of the stations. It is reduced each year.

Is that an accurate statement, or is it an increase in machine costs each year?

Mr. BROWNSTEIN. There has been a decrease. Well, of course, when we bought the equipment in the last 2 years there has been an increase, Mr. Evins.

Mr. EVINS. Two studies are presently underway to determine the feasibility of purchasing these machines as compared with continuing to rent.

This decision, this policy decision has pretty much been made, has it not?

Mr. MONK. This is what I was talking about on the $8 million yesterday.

OTHER OBJECT COSTS—OFFICE SERVICES

Mr. EVINS. Printing and reproduction costs, $715,000. Next year it will be $700,000 or $15,000 less. This is for all printing and reproduction in all your field offices?

Mr. DRIVER. Yes, sir.

Mr. EVINS. Repair of furniture is down $21,000 and miscellaneous contractual services—what does that include—$106,000?

Mr. BROWNSTEIN. These are for contracts negotiated for the purpose of obtaining credit reports, protective delivery service for transporting Government funds from regional offices to Federal Reserve banks, contractual service for repair, alteration, and maintenance of buildings not provided by GSA.

Mr. EVINS. Supplies and materials, $723,100 versus $756,000, a reduction of $33,400. Also you are going to require less furniture and fixtures.

Data processing center. This is located at Hines, Ill. This center will require next year $1,325,500. There were 150 employees last year; there will be 145 next year, a decrease of 5 employees in the center.

I see only a couple of increases recorded here: The pay raise and personnel benefits, which is about the same pattern, Mr. Chairman.

Do you want to comment further on the data processing center?

DATA PROCESSING CENTER

Put this table on page 8–40 in the record, Mr. Reporter.

(The page referred to follows:)

DEPARTMENT OF VETERANS' BENEFITS

Data Processing Center, $1,325,500.—Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment	142	150	145	−5
Personnel compensation	$836,623	$943,350	$973,517	+$30,167
Personnel benefits	61,112	69,650	71,783	+2,133
Total personal services and benefits	897,735	1,013,000	1,045,300	+32,300
Public Law 87-793 pay increase		(42,200)	(77,000)	(+34,800)
Travel and transportation of persons	7,693	8,000	8,000	
Transportation of things	4,969	5,700	3,800	−1,900
Rents, communications, and utilities	644,477	85,000	70,000	−15,000
Printing and reproduction	41,368	55,000	55,000	
Other services	51,157	69,800	69,800	
Supplies and materials	16,243	38,600	38,600	
Equipment	143,845	12,000	2,000	−10,000
Total cost	1,807,487	1,287,100	1,292,500	+5,400
Common service adjustment	+61,587	+33,000	+33,000	
Net cost	1,869,074	1,320,100	1,325,500	+5,400
Public Law 87-793 costs		(43,200)	(78,000)	(+34,800)

GENERAL

The Veteran's Administration completed its program to convert the benefit payment and statistical records of veterans and beneficiaries to the automatic data-processing system. Approximately 4,500,000 accounts have been absorbed into the system and are being centrally processed at the Data Processing Center, Hines, Ill. These accounts represent the records of all field stations except the Manila regional office. The conversion of Manila's accounts has not been scheduled.

Average employment is expected to decrease from 150 in fiscal year 1963 to 145 in fiscal year 1964 due to experience gained from fiscal year 1963 operations.

Mr. EVINS. The data processing is an important operation. Pages 8–46 shows personnel compensation up $30,167. Personal benefits is up $2,133. Travel is the same.

Other items are about the same level as last year.

COMPENSATION AND PENSIONS

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Compensation:			
(a) Living veterans:			
Spanish-American War	407	355	329
World War I	181,376	181,863	172,255
World War II	1,109,282	1,114,309	1,144,757
Korean conflict	184,021	198,585	199,857
Peacetime service	86,056	100,007	106,961
Subtotal	1,561,141	1,595,119	1,624,159
(b) Deceased veterans:			
Spanish-American War	1,253	1,190	1,135
World War I	61,751	60,404	59,472
World War II	287,619	275,679	259,200
Korean conflict	50,228	50,803	51,581
Peacetime service	56,090	61,226	65,736
Subtotal	456,341	449,302	437,124
Total, compensation	2,017,483	2,044,421	2,061,283
2. Pensions:			
(a) Living veterans:			
Prior to Spanish-American War	45	40	32
Spanish-American War	33,626	29,040	24,156
World War I	961,609	1,005,691	1,022,490
World War II	119,591	136,973	152,424
Korean conflict	9,054	10,476	12,096
Peacetime service	38	34	33
Subtotal	1,123,963	1,181,654	1,211,231
(b) Deceased veterans:			
Prior to Spanish-American War	2,809	2,370	2,176
Spanish-American War	56,940	55,020	53,684
World War I	287,804	302,100	314,820
World War II	149,416	180,539	200,400
Korean conflict	11,446	14,670	17,520
Peacetime service	10	10	9
Subtotal	508,425	554,709	588,609
Total, pensions	1,632,388	1,736,363	1,799,840
3. Other:			
(a) Retired officers	2,975	2,787	2,644
(b) Subsistence allowance	6,820	7,120	11,262
(c) Initial burial allowance	42,513	44,194	45,745
(d) Special allowance, dependents (72 Stat. 1128)	121	150	175
(e) Invalid lifts (72 Stat. 1140)	28	40	50
Total, other	52,458	54,292	59,877
Total program costs, funded	3,702,329	3,835,076	3,921,000
Change in selected resources [1]	5,208	----------	----------
Total obligations (object class 42)	3,707,536	3,835,076	3,921,000
Financing:			
Unobligated balance brought forward (−)	−213,112	−3,076	----------
Unobligated balance carried forward	3,076	----------	----------
New obligational authority	3,497,500	3,832,000	3,921,000
New obligational authority:			
Appropriation	3,500,000	3,832,000	3,921,000
Transferred to "Readjustment benefits" (75 Stat. 358) (−)	−2,500	----------	----------
Appropriation (adjusted)	3,497,500	3,832,000	3,921,000

[1] Selected resources as of June 30 are as follows: Accounts receivable (benefit overpayments collectible from beneficiaries), 1961, $9,043,000; 1962, $14,251,000; 1963, $14,251,000; 1964, $14,251,000.

Mr. EVINS. Compensation and pensions is the big item we discussed somewhat earlier. Place in the record pages 9–1 through 9–9.

(The pages referred to follow:)

DEPARTMENT OF VETERANS' BENEFITS

COMPENSATION AND PENSIONS APPROPRIATION, $3,921,000,000

The total requirements for the past, current, and budget years are summarized by major category as follows:

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Appropriation	$3,500,000,000	[1] $3,874,000,000	$3,921,000,000
Transfer out [2]	−2,500,000		
Unobligated balance brought forward	213,112,342	3,075,894	
Unobligated balance carried forward	−3,075,894		
Total obligations	3,707,536,448	[1] 3,877,075,894	3,921,000,000
Adjustment of obligation to cost (net)	[3] −5,207,879		
Total costs	3,702,328,569	[1] 3,877,075,894	3,921,000,000
Compensation	2,017,482,704	[1] 2,086,421,000	2,061,283,000
Pensions	1,632,387,762	1,736,363,000	1,799,840,000
Other	52,458,103	[1] 54,291,894	59,877,000

[1] Includes estimated supplemental of $42,000,000.
[2] Transferred to readjustment benefits appropriation.
[3] Change in selected resources.

The funds requested under this title are to cover the payments of all compensation, pensions, and 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, and special allowances under 72 Stat. 1128 (38 U.S.C. 412).

The caseloads and average payments used in preparation of these estimates are based on the experience obtained in fiscal year 1962 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 fiscal years 1963 and 1964.

The increased cost in the total appropriation is attributable primarily to the continuing accretions to the rolls in certain categories caused by the advancing age of veterans (particularly of World War I) and to the enactment of Public Law 87–645, Sept. 7, 1962, which increased most rates of disability compensation payable to veterans. Public Law 87–815, approved Oct. 15, 1962, extended vocational rehabilitation benefits to peacetime veterans and costs of subsistence allowance payments were increased accordingly.

Cost effects of other new laws enacted during the second session, 87th Congress, have been considered but are not significant.

Another significant area of cost is in the death pension program, where the effects of equalizing requirements for World War II and Korean conflict widows and children with those of survivors of World War I veterans continue to reflect initial impact of Public Law 86–211.

The large group of veterans with World War II and Korean conflict service now in civil life, where increasing accidental deaths occur, can be expected to cause corresponding increases in the number of cases meeting entitlement requirements under the death pension program.

The total appropriation requested amounts to $3,921 million, which represents an increase of $43,924,106 over the estimated cost for the current fiscal year and an increase of $218,671,431 compared with the past fiscal year. Current year requirements necessitate a supplemental appropriation in an anticipated amount of $42 million. Actual and estimated costs and average caseloads are summarized respectively for each major entitlement category in the following two tables.

The actual and estimated costs are listed below in detail by activities for each of the major categories:

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Total costs	$3,702,328,569	$3,877,075,894	$3,921,000,000
Compensation, total	2,017,482,704	2,086,421,000	2,061,283,000
Living veterans, total	1,561,141,398	1,637,119,000	1,624,159,000
Spanish-American War	406,728	355,000	329,000
World War I	181,375,562	181,863,000	172,255,000
World War II	1,109,282,196	1,156,309,000	1,144,757,000
Korean conflict	184,020,789	198,585,000	199,857,000
Peacetime service	86,056,123	100,007,000	106,961,000
Deceased veterans, total	456,341,306	449,302,000	437,124,000
Spanish-American War	1,253,003	1,190,000	1,135,000
World War I	61,751,385	60,404,000	59,472,000
World War II	287,018,853	275,679,000	259,200,000
Korean conflict	50,227,935	50,803,000	51,581,000
Peacetime service	56,090,130	61,226,000	65,736,000
Pensions, total	1,632,387,762	1,736,363,000	1,799,840,000
Living veterans, total	1,123,963,022	1,181,654,000	1,211,231,000
Yellow fever experiments	2,200	[1] 2,000	[1] 2,000
Indian wars	43,177	38,000	30,000
Spanish-American War	33,625,556	29,040,000	24,156,000
World War I	961,608,653	1,005,091,000	1,022,490,000
World War II	119,591,142	136,973,000	152,424,000
Korean conflict	9,053,938	10,476,000	12,096,000
Peacetime service	38,356	34,000	33,000
Deceased veterans, total	508,424,740	554,709,000	588,609,000
Mexican War	2,018	1,000	1,000
Indian wars	414,431	344,000	300,000
Civil War	2,392,611	2,025,000	1,875,000
Spanish-American War	56,939,547	55,020,000	53,684,000
World War I	287,804,152	302,100,000	314,820,000
World War II	149,415,737	180,539,000	200,400,000
Korean conflict	11,445,869	14,670,000	17,520,000
Peacetime service	10,375	[1] 10,000	[1] 9,000
Other, total	52,458,103	54,291,894	59,877,000
Retired officers	2,975,428	2,787,000	2,644,000
Adjusted service and dependent pay	1,311	1,000	[1] 1,000
Subsistence allowance	6,819,538	7,120,000	[1] 11,262,000
Initial burial allowance	42,513,123	44,193,894	45,745,000
Special allowance, dependents (72 Stat. 1128)	121,153	150,000	175,000
Invalid lifts (72 Stat. 1140)	27,550	40,000	50,000

[1] Hundreds dropped (added) for rounding purposes.

The actual and estimated average caseloads are listed below in detail by activities for each of the major categories:

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Compensation, total	$2,372,683	$2,354,535	$2,332,185
Living veterans, total	1,992,408	1,981,535	1,968,825
Spanish-American War	157	135	125
World War I	151,450	141,400	132,300
World War II	1,512,731	1,500,000	1,485,000
Korean conflict	210,025	212,900	214,900
Peacetime service	118,045	127,100	136,500
Deceased veterans, total	380,275	373,000	363,360
Spanish-American War	863	800	760
World War I	43,479	42,300	41,300
World War II	261,499	251,900	240,000
Korean conflict	38,618	39,200	39,800
Peacetime service	35,816	38,800	41,500
Pensions, total	1,854,881	1,967,248	2,051,972
Living veterans, total	1,138,448	1,190,821	1,225,711
Yellow fever experiments	1	1	1
Indian wars	28	25	20
Spanish-American War	26,570	22,000	18,300
World War I	988,685	1,027,700	1,050,000
World War II	114,585	131,200	146,000
Korean conflict	8,354	9,700	11,200
Peacetime service	225	195	190
Deceased veterans, total	716,433	776,427	826,261
Mexican War	3	2	2
Indian wars	573	470	410
Civil War	3,177	2,700	2,500
Spanish-American War	73,415	70,000	68,300
World War I	455,173	475,000	495,000
World War II	172,029	211,900	240,000
Korean conflict	12,001	16,300	20,000
Peacetime service	62	55	49
Other:			
Retired officers	1,268	1,170	1,110
Adjusted service and dependent pay	(2)	(2)	(2)
Subsistence allowance	4,958	5,200	8,000
Initial burial allowance [1]	168,703	175,400	181,200
Special allowance, dependents (72 Stat. 1128)	176	220	265
Invalid lifts (72 Stat. 1140) [1]	193	280	350

[1] Figures shown represent estimated fiscal year totals not averages.
[2] Less than 50.

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. These rates include increases which were effective October 1, 1962, for veterans on rolls pursuant to Public Law 87-645. The basic rates were increased from 5.3 to 11.1 percent and special monthly compensation in amounts ranging from 8.6 to 20.8 percent. 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 1962 actual	Fiscal year 1963 estimate	Fiscal year 1964 estimate
Total costs	$1,561,141,398	$1,637,119,000	$1,624,159,000
Average payment per case per year	$783.55	$826.19	$824.94
AVERAGE NUMBER OF VETERANS			
Wars:			
Spanish-American War	157	135	125
World War I	151,450	141,400	132,300
World War II	1,512,731	1,500,000	1,485,000
Korean conflict	210,025	212,900	214,900
Peacetime service	118,045	127,100	136,500
Total	1,992,408	1,981,535	1,968,825

The average caseload of living veterans reflects a decreasing trend through 1964, with the exception of a steady normal increase in the peacetime roll, and minor increases to the Korean conflict roll. The losses to the rolls are attributable primarily to the deaths of veterans in the World War I and World War II categories and to veterans re-rated less than 10 percent or no percent disabled.

The increase in the average payment in 1963 reflects the increased rates provided under Public Law 87–645, effective October 1, 1962. A similar slightly lower average is projected for 1964.

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 a service-connected disease or injury.

Deceased veterans—Service connected

	Fiscal year 1962 actual	Fiscal year 1963 estimate	Fiscal year 1964 estimate
Total costs	$456,341,306	$449,302,000	$437,124,000
Average payment per case per year	$1,200.03	$1,204.56	$1,203.01
AVERAGE NUMBER OF CASES			
Wars:			
Spanish-American War	863	800	760
World War I	43,479	42,300	41,300
World War II	261,499	251,900	240,000
Korean conflict	38,618	39,200	39,800
Peacetime service	35,816	38,800	41,500
Total	380,275	373,000	363,360

The average caseload has reached a peakload and the rate of decrease experienced in 1962 is projected through the budget year. The World War II caseload governs this category and reflects the decrease maintained through the budget year. A steady increase in the peacetime roll continues but is not sufficient to offset the losses in the World War I and World War II categories.

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.

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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—Non-service-connected

	Fiscal year 1962 actual	Fiscal year 1963 estimate	Fiscal year 1964 estimate
Total costs	$1,123,963,022	$1,181,654,000	$1,211,231,000
Average payment per case per year	$987.28	$992.30	$988.19
AVERAGE NUMBER OF VETERANS			
Yellow-fever experiments	1	1	1
Wars:			
Indian wars	28	25	20
Spanish-American War	26,570	22,000	18,300
World War I	988,685	1,027,700	1,050,000
World War II	114,585	131,200	146,000
Korean conflict	8,354	9,700	11,200
Peacetime service	225	195	190
Total	1,138,448	1,190,821	1,225,711

The caseload continues to increase steadily with major gains projected in the World War I and World War II categories through 1964. The average annual payment increases in 1963 based on an assumption that more World War I veterans entitled to higher rates under the new pension program will elect such benefits in 1963. A further increasing factor is the higher payment paid to most new additions to the roll while their annual income is being offset during the time they recoup their own contribution to retirement plans.

Deceased veterans.—Effective July 1, 1960, pensions became 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 pension 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 a maximum of $105 to a widow with three children (plus $15 for each additional child) whose income is $1,000 or less.

Deceased veterans—Non-service-connected

	Fiscal year 1962 actual	Fiscal year 1963 estimate	Fiscal year 1964 estimate
Total costs	$508,424,740	$554,709,000	$588,609,000
Average payment per case per year	$709.66	$714.44	$712.38
AVERAGE NUMBER OF CASES			
Wars:			
Mexican War	3	2	2
Indian wars	573	470	410
Civil War	3,177	2,700	2,500
Spanish-American War	73,415	70,000	68,300
World War I	455,173	475,000	495,000
World War II	172,029	211,900	240,000
Korean conflict	12,001	16,300	20,000
Peacetime service	62	55	49
Total	716,433	776,427	826,261

The estimated caseload in 1964 returns to a more normal increase than indicated in 1963. This is because the 1963 estimate reflects the continuing effect of the equalization feature of Public Law 86–211 for World War II and Korean conflict widows.

A minor decrease in the annual average payment is projected in 1964 reflecting the diminishing effect of equalization, particularly in the World War II category.

OTHER

Average number of cases

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Total costs	$52,458,103	$54,291,894	$59,877,000
Retired officers	1,268	1,170	1,110
Adjusted service and dependents pay	[1]	[1]	[1]
Subsistence allowance	4,958	5,200	8,000
Initial burial allowance [2]	168,703	175,400	181,200
Special allowance, dependents	176	220	265
Invalid lifts [2]	193	280	350

[1] Less than 50.
[2] Figures shown represent estimated fiscal year totals and not averages.

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 installments. A bonus payment of $60 is paid to the dependents of 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. Consideration has been given in 1963 and 1964 to the cost effects of Public Law 87-815, approved October 15, 1962.

Initial 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.

Mr. EVINS. For next year you estimate a need of $3,921 million against $3,874 million for last year.

You have an unobligated balance brought forward of nothing.

You used it all and then came back, Mr. Monk, for a supplemental?

Mr. MONK. Yes, sir; we expect to use all of this year's appropriation, including the $3 million unobligated balance brought forward and the $42 million supplemental.

Mr. EVINS. Compensation accounts for $2,086,421,000; pensions $1,736,363,000; and other, $54,291,894.

Mr. MONK. That is at the bottom of page 9-3, "Retired officers," "Adjusted service pay," "Subsistence allowance," "Initial burial allowance," "Special allowance. dependents," and "Invalid lifts."

Mr. EVINS. This table on 9–3 shows your total compensation for Spanish-American War veterans, World War I, World War II, Korean, and peacetime service and also a pension program for the same class of veterans.

Mr. MONK. That is the dollars on that page. The next page shows the number of beneficiaries broken down the same way.

Mr. EVINS. I think that is a wonderful table.

COMPENSATION PAYMENTS

In 1962 the total compensation was paid to 2,372,683 veterans and dependents of deceased veterans and for 1964 the compensation is estimated to be paid to 2,332,185. This is the number of veterans and deceased veterans cases in compensation. Then you come down to pensions——

Mr. THOMAS. Those figures confuse me a whole lot. You have listed up here "Living veterans, total." For 1962 you have 1,992,408. Is that correct?

Mr. GLEASON. Those are the ones receiving compensation.

Mr. DRIVER. Just those drawing compensation. It says, "Compensation total, living veterans."

Mr. THOMAS. What is your figure now for all of your veterans?

Mr. DRIVER. Drawing benefits or living? Living or drawing benefits?

Mr. THOMAS. All of them.

You have "Living veterans" here on 9–5.

Mr. GLEASON. We have about 22.2 million living veterans as of December 1962.

Mr. THOMAS. And out of that, how many of them are drawing compensation and pensions?

Mr. GLEASON. An average of 1,981,535 veterans will receive compensation in 1963.

Mr. THOMAS. This is your table here, then?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. This paragraph here, Mr. Evins, I think is worth reading.

Mr. EVINS (reading):

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.

I suppose that would be the wheelchair patients?

Mr. GLEASON. Yes, sir; bed patients, but not hospitalized. If hospitalized the rate would be $525.

Mr. EVINS (reading):

These rates include increases which were effective October 1, 1962, for veterans on rolls pursuant to Public Law 87–645. The basic rates were increased from 5.3 to 11.1 percent and special monthly compensation in amounts ranging from 8.6 to 20.8 percent. 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.

QUALIFICATION FOR BENEFITS

Mr. OSTERTAG. Mr. Administrator, what is the definition of a veteran for the purpose of benefits?

Mr. GLEASON. Anyone who has served with the Armed Forces of the United States in time of war. I mean including the Korean conflict. Or those who have been disabled in peacetime.

Mr. OSTERTAG. Those who have been disabled in peacetime?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Any time up to now?

Mr. GLEASON. At any time; yes, sir. If they were disabled. In service. They would have to be disabled in service.

Mr. OSTERTAG. The disability must be associated with the service?

Mr. GLEASON. Yes, sir.

Mr. EVINS. There is an interesting chart in the middle of page 9–5 entitled "Living veterans—service connected."

For the fiscal year 1962 the total cost for "Living veterans, service connected" was $1,561,141,398.

For fiscal year 1964 it is estimated to be $1,624,159,000.

AVERAGE AND MAXIMUM COMPENSATION PAYMENT

Average payment per case per year in fiscal year 1962—I suppose that includes the low and the high?

Mr. GLEASON. Yes, sir.

Mr. EVINS. $783.55. For fiscal year 1964 it is estimated to be $824.94.

The veteran with a family trying to live on that would find a rather low standard indeed.

Mr. GLEASON. Of course so many of them are only 10 percent disabled, Mr. Evins. This is why it is so low.

Mr. EVINS. What is the highest compensation that any one veteran—the maximum he may be drawing under present law?

Mr. GLEASON. $725 a month per case, plus additional amounts for dependents. There is no limit on the number of dependents.

Mr. THOMAS. Mr. Evins, I note here that for World War II, fiscal year 1964 will be 1,485,000 drawing compensation. What percentage is that of the total living from World War I?

Mr. DRIVER. 2,401,000 World War I veterans were living as of December 1962.

Mr. THOMAS. What was that big number after the war? How many of them served?

Mr. GLEASON. In World War I?

Mr. THOMAS. Yes.

Mr. DRIVER. 4.7 million.

Mr. THOMAS. Almost 5?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. How many are living now?

Mr. DRIVER. 2.4 million.

Mr. EVINS. Mr. Reporter, earlier this morning I suggested placing in the record pages 49, 50, 51, 52, and 53, and table 28 on page 215 on compensation and pensions and I believe it should be placed at this point rather than at the earlier place this morning.

(The material referred to follows:)

CHAPTER 4. COMPENSATION AND PENSION

MISSION

The mission of the compensation and pension programs is one of service to veterans and their dependents. The compensation and pension programs are administered so all veterans and their dependents are given like treatment under like circumstances without bias or prejudice. The programs compensate service-disabled veterans and their dependents and give financial assistance to needy veterans and their dependents.

HIGHLIGHTS

More than $3.6 billion annually paid to veterans and their dependents; 1.9 million veterans received compensation; 1.2 million veterans received disability pension; dependents of 1,600,000 deceased veterans received compensation and pension.

GENERAL

In grateful recognition of their dedication and sacrifice, the United States has provided its former service men and women with dynamic, progressive, but realistic, compensation and pension programs designed to assist disabled veterans and their dependents.

The disability compensation program provides financial assistance to veterans with service-connected disabilities to compensate them for the loss of or reduction in earning power resulting from such disabilities, based on average impairment of earning capacity resulting from comparable injuries and disease in civil life.

The disability pension program gives financial assistance to war veterans who are in need and who are permanently and totally disabled by virtue of disease or injuries without regard to service origin.

The service pension program gives financial assistance to persons who served during wartime periods prior to World War I, and to their widows and children, without regard to need.

The death compensation and dependency and indemnity compensation programs provide financial assistance to widows, children, and dependent parents of veterans whose deaths were related to service, to compensate for the resultant loss of family income.

The death pension program gives financial assistance to needy widows and children of veterans of wartime service whose deaths were not related to military service.

Disability compensation payments vary in amount depending on the impairment of earning capacity suffered by the veteran. The degree is assessed in multiples of 10, from 10 to 100 percent, with special statutory rates for such disabilities as blindness and loss of use of limbs. For wartime service-connected disability the rates range from $19 per month for a 10-percent loss to $225 for total disability. The statutory rates may increase this up to $450 per month, with additional allowances of up to $150 per month for veterans who are housebound or in need of regular aid and attendance. For veterans who are 50 percent or more disabled, further amounts may be paid for a wife, children, or dependent parents. In case of disability related to peacetime service, the rates are 80 percent of those for a wartime disability.

For deaths occurring in service or related to service, the benefit payable to surviving widows, dependent children, and dependent parents is dependency and indemnity compensation. The minimum rate payable to a surviving widow is $122 per month. For a child where there is no eligible widow, $70 is the minimum monthly amount, and for dependent parents the rates range from $10 to $75 per month.

The current disability pension program for needy wartime veterans provides assistance for permanently and totally disabled ex-servicemen with limited net worth and income. Payments vary from $40 to $85 per month, with additional amounts provided for dependents and $70 per month additional for veterans in need of regular aid and attendance. In this program the amount of basic pension is increased or decreased under a sliding scale according to need with the higher payments going to those veterans with lower income and more dependents.

In fiscal year 1962 the VA's compensation and pension program paid more than $3½ billion to veterans and their dependents. These monthly payments

of $300 million went to over 4,700,000 beneficiaries VA-wide. Since these were payments to compensate directly for economic loss or to provide assistance for needy veterans and their dependents, it is believed that almost the entire amount was immediately returned to the national economy in expenditures for goods and services. This tremendous economic force is not subject to rapid fluctuations, but will continue to increase at a steady and predictable rate for several years.

From a veteran population of about 22¼ million, the Veterans' Administration in fiscal year 1962 adjudicated more than 195,000 original claims for compensation and pension. In addition, there were adjudicated 410,000 reopened claims or claims for increased benefits and over 520,000 claims on account of changes of income and dependents, largely involving the new pension law.

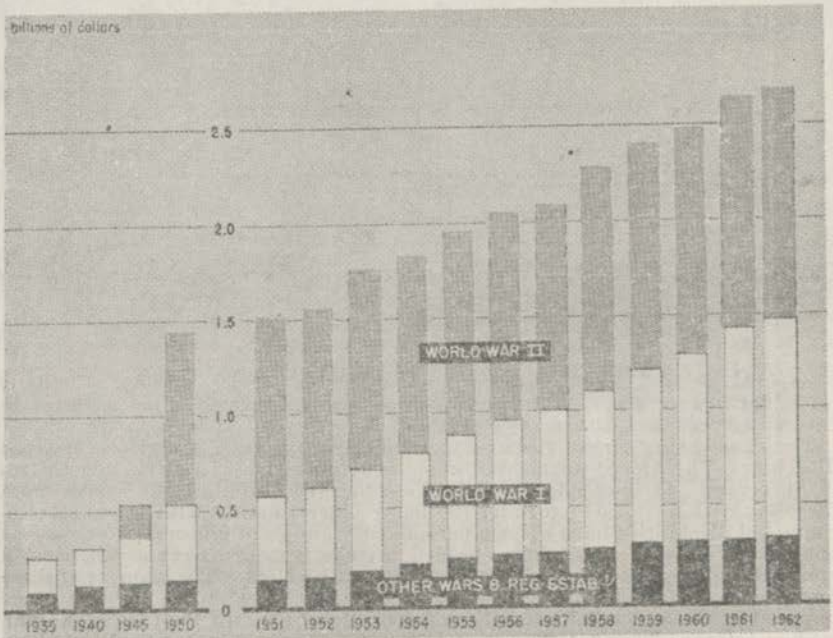
More than 132,000 initial applications for dependency and indemnity compensation, death compensation, and death pension were adjudicated. Insurance claims accounted for 38,000 adjudication actions and burial claims for over 200,000.

COMPENSATION AND PENSION—VETERANS

The number of veterans receiving compensation and pension benefits on June 30, 1962, increased 2 percent from the end of the prior fiscal year. The principal increase occurred in World War I non-service-connected pension cases. There was a slight reduction in the number in receipt of compensation. Detailed statistics will be found in the tables beginning on page 838. These tables show that in the 10-year-period from July 1, 1952, to June 30, 1962, the number of living World War I veterans receiving compensation dropped from 270,963 to 146,676, while those receiving pension increased from 321,097 to 1,006,533. For World War II veterans, those on the compensation rolls went from 1,632,963 to 1,506,465, and those on the pension rolls from 36,101 to 121,990 in the same period.

Table 28, page 838, reflects expenditures for compensation and pension and the number of veterans receiving these benefits. Available records show that the cumulative total of all veterans benefit payments for the Revolutionary War was $70 million. At the current payment rate, the Veterans' Administration releases this much to present beneficiaries about every 7 days.

EXPENDITURES FOR DISABILITY COMPENSATION AND PENSION DURING FISCAL YEAR

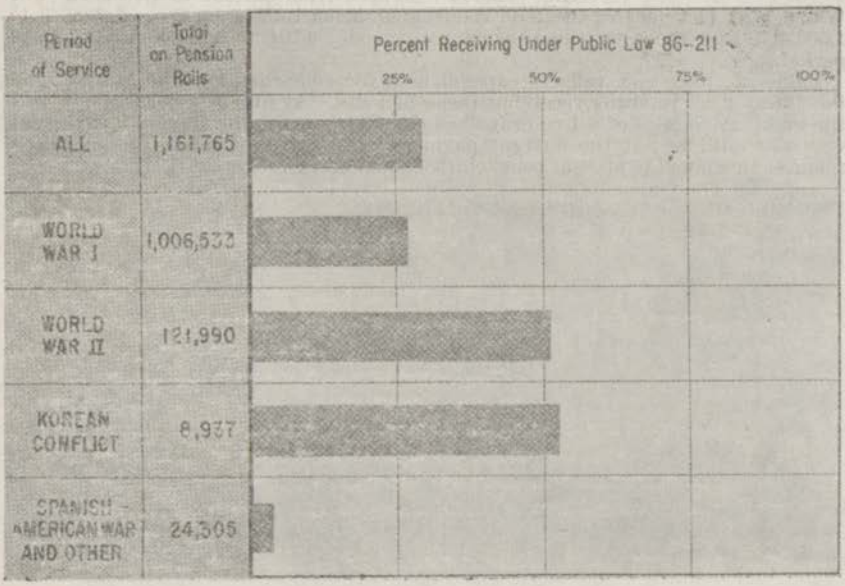


1/ Includes veterans of Korean conflict

Under a program discontinued July 1, 1960, a veteran who was entitled to disability pension on June 30, 1960, may continue to receive at the rate of $66.15 monthly, or $78.75 when he has been in receipt of pension for a continuous period of 10 years or is over 65 years old. He may receive $135.45 if helpless or blind or so nearly helpless or blind as to be in need of regular aid and attendance of another person. Those entitled under these earlier provisions may, if they wish, elect to receive pension under Public Law 86–211 which became effective July 1, 1960. A final election to receive under this law is irrevocable however. The rates under Public Law 86–211 vary from $40 to $85 monthly, with additional amounts provided for dependents, and $70 per month added if need for aid and attendance is shown. To be entitled there must be demonstrated need for assistance based on limited income and a limited amount of net worth. Annual income limitations of $1,800 for veterans without dependents and $3,000 for those with dependents provide a ceiling which precludes payment of pension under this law. For married veterans the spouse's annual income in excess of $1,200, which is reasonably available to the veteran, is considered in determining whether the annual income limitations are exceeded, if this would not work a hardship on him.

As of June 1962, 1,161,765 veterans were receiving pension for non-service-connected disabilities. Approximately 87 percent of these are World War I veterans. The following chart shows the percentage of living veterans where entitlement is under Public Law 86–211.

VETERANS RECEIVING PENSION



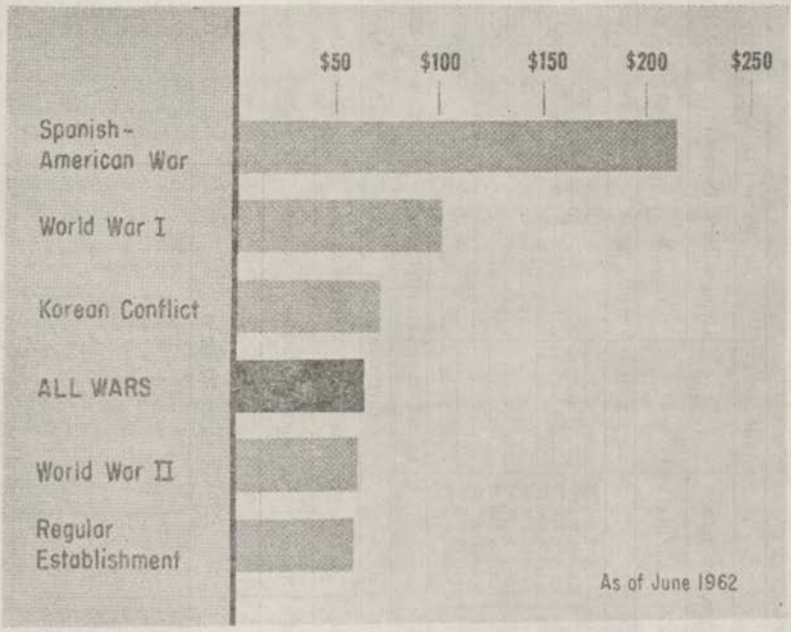
As of June 1962, 24,305 veterans were receiving service pension. Virtually all of these were Spanish-American War veterans. Income is not a factor in determining entitlement to service pension.

The chart below shows the average monthly payment for service-connected disability. The higher payments for older veterans may be attributed to two main factors: (1) the tendency of service-connected disabilities to become more disabling with advanced age; and (2) many older veterans with lesser service-connected disabilities have become permanently and totally disabled for reasons not related to service and have decided to take non-service-connected pension where the amount exceeds their compensation entitlement. The transfer of these lower compensated veterans to the pension rolls is reflected in the higher average payment of those remaining on the compensation rolls. In the case of Korean conflict veterans, however, the average rate ($71.57) exceeds that for World War II veterans ($60.36). This is probably due to a difference in casualty experience

and to the fact that many Korean conflict veterans have not yet reached their static level of disability.

The review of pension and compensation cases begun in 1954 was completed during the fiscal year. World War II and Regular Establishment compensation cases and all pension cases where the veteran was receiving payments and was less than 55 years of age on that date were included. About 1.7 million cases were involved. Adjustments have been made in about 174,000 cases. Payments were terminated in 83,000 cases either because the condition was no longer disabling or because the condition had erroneously been considered service connected. Less than 2 percent were in the latter category. In addition, payments were increased in 20,700 cases and decreased in 70,100 others, mostly following examinations to determine the current level of disability suffered by the veteran.

AVERAGE MONTHLY SERVICE-CONNECTED DISABILITY PAYMENT



In fiscal year 1962, a special review of certain disallowed compensation claims of veterans of World War II and the Regular Establishment was nearly completed. Over 272,000 claims disallowed prior to December 14, 1954, because the disability claimed was "not shown at the time of last examination," were identified for the review. About 21,000 review cases still await action. Service connection was established in over 14,000 cases under the review, with annual compensation payments of over $104,000 and retroactive (one-time) payments of $102,000.

COMPENSATION, DEPENDENCY AND INDEMNITY COMPENSATION AND PENSION FOR DEPENDENTS

The number of deceased veterans on whose account death compensation, dependency and indemnity compensation, or death pension was being paid on June 30, 1962, showed an increase of 5.2 percent over that for the prior fiscal year. The rate of increase is considerably lower than that for fiscal year 1961 when legislation granted pension entitlement to a large number of widows and children of World War II and Korean conflict veterans on the same basis as widows and children of World War I veterans.

Table 28.—*Living veterans who were receiving compensation, pension, disability allowance, or retirement pay and deceased veterans whose dependents were receiving compensation, dependency and indemnity compensation or pension benefits at the end of each fiscal year, the amounts expended for these benefits during the fiscal years 1953–62 and the total amounts expended to June 30, 1952, and 1962, for each war and for the Regular Establishment*

Fiscal year	Total				Unclassified [1]	War of 1812		Mexican War		
	Living veterans		Deceased veterans		Amount	Living veterans	Deceased veterans	Living veterans	Deceased veterans	
	Number	Amount	Number	Amount		Amount	Amount	Amount	Number	Amount
Total to June 30, 1962		$59,338,507,786.95			$86,513,425.54	$14,019,736.48	$32,198,654.09	$28,748,117.32		$33,049,803.11
1962	3,150,210	$2,687,995,344.32	1,122,048	$964,602,884.26					2	$2,017.47
1961	3,106,985	2,642,132,617.49	1,066,936	926,262,988.89					2	1,130.71
1960	3,008,935	2,491,209,906.61	950,802	823,551,476.64					3	1,507.38
1959	2,934,247	2,414,216,196.74	915,822	811,310,380.77					5	2,771.00
1958	2,850,475	2,285,901,137.98	884,428	776,310,129.88					6	2,724.00
1957	2,796,512	2,099,718,748.35	862,955	728,797,257.48					9	3,179.00
1956	2,738,505	2,054,993,120.19	836,800	693,996,166.32					9	3,391.80
1955	2,668,786	1,969,835,136.09	808,303	664,457,400.91					9	4,681.50
1954	2,590,411	1,838,328,426.16	777,988	612,189,266.25					10	4,690.47
1953	2,505,834	1,768,225,496.11	747,750	608,081,036.75					12	7,504.00
1952 and prior years		$29,476,392,668.76			$86,513,425.54	$14,019,736.48	$32,198,654.09	$28,748,117.32		$33,015,605.78

Fiscal year	Indian Wars				Civil War				Spanish-American War			
	Living veterans		Deceased veterans		Living veterans		Deceased veterans		Living veterans		Deceased veterans	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Total to June 30, 1962		$60,299,455.93		$55,761,814.37		$8,207,260,947.49				$3,211,612,717.41		$1,240,487,420.41
1962	30	$43,176.32	509	$414,431.01	0	0	2,850	$2,392,610.96	24,426	$34,032,284.43	71,980	$58,192,550.20
1961	29	59,149.83	620	475,053.19	0	*65.00	3,441	2,729,276.76	28,939	39,576,487.05	75,349	60,340,144.61
1960	44	80,477.81	684	529,480.72	0	835.27	3,882	3,122,308.89	33,373	45,490,410.20	78,378	62,429,559.02
1959	63	97,177.26	780	588,809.62	[2] 1	2,709.00	4,471	3,382,729.96	38,977	52,430,194.07	77,885	63,880,891.67
1958	87	125,000.42	862	559,971.94			3,680	2,450,207.26	44,483	59,529,481.32	81,779	54,628,915.49
1957	130	186,727.27	1,139	636,231.95			5,361	2,831,555.63	50,513	66,686,860.16	85,861	54,902,285.28
1956	154	228,216.94	1,198	708,768.61	1	*5,290.55	5,669	3,238,914.85	56,305	74,015,706.14	85,567	55,406,289.65
1955	188	286,735.69	1,234	765,594.42	1	1,696.42	6,020	3,672,806.69	60,125	81,268,267.70	81,883	55,072,316.81
1954	226	337,014.39	1,298	802,647.10	1	1,634.67	6,892	4,087,237.35	66,315	87,964,515.79	82,054	53,210,185.71
1953	278	397,179.38	1,401	875,783.96	1	2,580.00	7,729	4,710,055.48	72,447	94,364,939.03	81,681	52,978,516.27
1952 and prior years		$58,458,600.62		$49,405,041.85		$8,174,639,143.85				$2,576,253,571.52		$669,445,765.70

See footnotes at end of table.

Fiscal year	Regular Establishment				World War I					
					Living veterans					
	Living veterans		Deceased veterans		Total		Service-connected [3]		Emergency officer's retirement [4]	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Total to June 30, 1962	$1,011,521,891.29		$477,344,017.48		$15,148,779,860.68		$7,526,429,272.50		$154,708,139.03	
1962	122,208	$86,094,479.45	37,358	$56,100,504.81	1,154,412	$1,145,912,541.77	146,678	$181,375,561.78	1,201	$2,960,809.13
1961	113,124	79,335,866.68	34,471	51,628,630.87	1,122,892	1,120,164,938.54	157,519	192,303,576.81	1,289	3,150,561.35
1960	103,480	73,098,402.64	32,049	46,772,519.25	1,025,730	988,067,521.21	173,086	204,703,710.76	1,389	3,330,745.27
1959	95,036	67,331,598.97	28,802	42,097,931.42	944,226	906,816,788.31	188,799	217,230,953.45	1,480	3,530,834.98
1958	83,891	58,357,380.84	26,120	36,340,879.79	870,378	826,340,524.40	203,656	220,260,639.69	1,504	3,519,826.41
1957	73,826	48,052,949.54	22,752	25,903,351.49	817,882	747,293,978.58	215,157	212,900,522.29	1,630	3,672,823.59
1956	65,619	44,142,827.83	20,254	19,489,398.75	765,103	700,022,793.57	227,993	222,022,511.49	1,670	3,859,163.71
1955	63,209	43,346,243.78	18,736	17,212,510.07	715,967	641,868,936.00	239,418	229,672,610.71	1,789	3,893,372.77
1954	63,115	42,073,497.70	18,613	16,096,327.89	670,333	579,794,428.71	250,637	229,615,718.66	1,827	4,057,508.87
1953	62,207	42,293,135.43	18,780	16,533,428.29	632,312	543,383,285.54	260,990	239,303,317.21	1,572	3,285,042.86
1952 and prior years	$427,395,508.43		$149,168,534.85		$6,949,114,124.05		$5,377,040,149.65		$119,447,450.09	

Fiscal year	World War I—Continued							
	Living veterans—Con.		Deceased veterans					
	Disability allowance or nonservice-connected		Total		Service-connected		Nonservice-connected	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Total to June 30, 1962	$7,467,642,449.15		$4,920,509,015.68		$1,892,815,368.41		$3,027,693,647.27	
1962	1,006,533	$961,576,170.86	507,939	$349,491,992.72	42,975	$61,751,384.87	464,964	$287,740,607.85
1961	964,084	924,710,800.38	490,890	342,655,366.18	44,235	63,196,605.96	446,655	279,458,760.22
1960	851,255	780,033,065.18	464,839	313,750,405.69	45,841	63,606,164.31	418,998	250,144,241.38
1959	753,947	686,054,999.88	440,951	303,100,283.96	46,099	64,863,670.74	394,852	238,236,613.22
1958	665,218	602,560,058.30	415,469	287,894,509.48	47,631	65,712,511.14	367,838	222,181,998.34
1957	601,095	530,720,632.70	397,943	269,665,958.31	50,878	58,727,446.94	347,065	210,938,511.37
1956	535,440	474,141,118.37	380,449	252,570,605.13	52,653	53,372,025.83	327,796	199,198,579.30
1955	474,760	408,302,952.52	361,811	239,464,513.62	54,520	53,389,448.84	307,291	186,075,064.78
1954	417,869	346,121,201.18	344,120	218,294,560.68	56,954	48,941,587.83	287,166	169,352,972.85
1953	369,750	300,794,925.47	326,501	210,789,657.28	59,036	51,977,403.37	267,465	158,812,253.91
1952 and prior years	$1,452,626,524.31		$2,132,831,162.63		$1,307,277,118.58		$825,554,044.05	

See footnotes at end of table.

Fiscal year	World War II							
	Living veterans							
	Total		Service-connected [1]		Reserve officers' retirement		Non-service-connected	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Total to June 30, 1962		$17,902,855,260.18		$16,824,307,824.76		$325,490,423.09		$753,057,012.33
1962	1,628,460	$1,228,838,136.06	1,506,465	$1,109,232,374.17	5	$14,619.60	121,990	$119,591,142.29
1961	1,626,295	1,213,350,374.56	1,520,875	1,112,860,144.09	5	7,537.73	105,415	100,482,692.74
1960	1,633,451	1,199,268,978.40	1,543,920	1,119,741,503.73	5	14,619.60	89,526	79,512,855.07
1959	1,645,946	1,204,220,886.10	1,564,557	1,132,841,878.94	5	12,384.12	81,384	71,366,623.04
1958	1,647,056	1,171,424,613.93	1,575,786	1,108,458,977.83	5	28,765.91	71,265	62,936,870.19
1957	1,656,622	1,085,192,291.74	1,591,217	1,028,414,007.13	5	6,932.79	65,400	56,771,351.82
1956	1,667,657	1,094,057,713.25	1,607,938	1,040,623,071.45	5	12,205.62	59,714	53,422,436.18
1955	1,673,939	1,085,023,492.15	1,619,498	1,038,215,688.40	5	*59,561.45	54,436	46,867,365.20
1954	1,676,995	1,046,158,311.99	1,628,952	1,006,563,201.24	5	*88,979.39	48,038	39,684,090.14
1953	1,675,230	1,047,333,229.94	1,633,645	1,012,398,612.51	5	*1,264.63	41,580	34,935,882.03
1952 and prior years		$6,527,987,232.06		$6,114,958,365.24		$325,543,163.19		$87,485,703.63

Fiscal year	World War II—Continued					
	Deceased veterans					
	Total		Service-connected [1]		Non-service-connected	
	Number	Amount	Number	Amount	Number	Amount
Total to June 30, 1962		$4,982,051,046.43		$4,500,231,571.89		$481,819,474.54
1962	448,331	$436,334,972.86	256,545	$286,919,236.01	191,786	$149,415,736.85
1961	414,245	411,440,852.28	266,015	300,863,187.02	148,230	110,577,665.26
1960	330,930	346,981,037.04	274,974	310,755,276.68	55,956	36,225,760.36
1959	324,348	349,062,798.82	275,146	316,729,522.75	49,202	32,333,276.07
1958	319,065	346,556,433.11	276,211	318,329,361.36	42,854	28,227,071.75
1957	313,924	329,564,780.16	275,922	304,626,528.10	38,002	24,938,252.06
1956	308,653	319,270,335.69	275,956	297,724,092.40	32,697	21,546,243.29
1955	304,459	307,331,149.51	275,453	288,646,986.98	29,006	18,684,162.53
1954	295,641	289,030,375.84	270,660	273,756,033.95	24,981	15,274,341.89
1953	291,260	300,434,148.64	270,425	287,077,919.66	20,835	13,356,228.98
1952 and prior years		$1,546,044,162.48		$1,514,803,426.98		$31,240,735.50

Fiscal year	Korean conflict					
	Living veterans					
	Total		Service-connected		Non-service-connected	
	Number	Amount	Number	Amount	Number	Amount
Total to June 30, 1962		$1,464,238,804.77		$1,427,131,738.49		$37,107,066.28
1962	220,674	$193,074,726.29	211,737	$184,020,788.58	8,937	$9,053,937.71
1961	215,706	189,645,865.83	208,084	182,257,866.09	7,622	7,387,999.74
1960	212,857	185,203,281.08	206,388	179,446,918.45	6,469	5,756,362.63
1959	209,998	183,316,843.03	204,612	178,564,304.74	5,386	4,752,538.29
1958	204,580	170,124,137.07	200,402	166,614,405.38	4,178	3,509,731.69
1957	197,539	152,305,941.06	194,279	149,585,250.94	3,260	2,720,690.12
1956	183,666	142,531,153.01	181,437	140,755,967.66	2,229	1,775,185.35
1955	155,357	118,039,764.35	153,831	116,910,651.42	1,526	1,129,112.93
1954	113,426	81,999,022.91	112,514	81,346,958.88	912	652,064.03
1953	63,359	40,451,146.79	62,858	40,148,221.49	501	302,925.30
1952 and prior years		$7,546,923.35		$7,480,404.86		$66,518.49

Fiscal year	Korean conflict—Continued					
	Deceased veterans					
	Total		Service-connected		Non-service-connected	
	Number	Amount	Number	Amount	Number	Amount
Total to June 30, 1962		$461,255,798.29		$437,331,281.70		$23,924,516.59
1962	53,079	$61,673,804.23	38,926	$50,227,935.54	14,153	$11,445,868.69
1961	47,918	56,992,534.29	38,355	49,710,352.36	9,563	7,282,181.93
1960	40,037	49,964,658.65	37,662	48,437,095.91	2,375	1,527,562.74
1959	38,580	49,194,164.32	36,759	47,974,487.70	1,821	1,219,676.62
1958	37,447	47,876,488.81	36,081	46,851,054.94	1,366	1,025,433.87
1957	35,966	45,289,915.66	35,029	44,628,376.70	937	661,538.96
1956	35,001	43,307,861.84	34,402	42,898,959.45	599	408,902.39
1955	34,151	40,933,828.29	33,777	40,698,771.82	374	235,056.47
1954	29,360	30,663,241.21	29,201	30,569,721.41	159	93,519.80
1953	20,386	21,751,942.83	20,341	21,728,679.71	45	23,263.12
1952 and prior years		$13,607,358.16		$13,605,846.16		$1,512.00

[1] Includes $70 million expended for the Revolutionary War.
Confederate.
Includes cases paid under special acts.

[4] Includes provisional, probationary, or temporary officers.
[5] Includes military forces of the Commonwealth of the Philippines (38 U.S.C. 107).
*Credit.

Mr. EVINS. This table at the bottom of 9–5 gives the number of veterans of various wars.

READJUSTMENT BENEFITS

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Education and training:			
(a) World II education	19		
(b) Korean conflict veterans	121,091	60,729	35,301
(c) Orphans	21,366	24,750	21,450
Total, education and training	142,476	85,479	56,751
2. Loan guaranty:			
(a) Direct payments	1		
(b) Payment to Loan guaranty revolving fund			34,000
Total, loan guaranty	1		34,000
3. Special assistance to disabled veterans:			
(a) Vocational rehabilitation	3,519	2,860	5,869
(b) Housing grants	3,895	4,165	3,920
(c) Automobiles or other conveyances for disabled veterans	669	600	560
Total, special assistance to disabled veterans	8,082	7,625	10,349
Total program costs, funded	150,559	93,104	101,100
Change in selected resources [1]	−148		
Total obligations	150,411	93,104	101,000
Financing:			
Unobligated balance brought forward (−)	−14,515	−1,604	
Unobligated balance carried forward	1,604		
New obligational authority	137,500	91,500	101,000
New obligational authority:			
Appropriation	135,000	91,500	101,000
Transferred from "Compensation and pension" (75 Stat. 358)	2,500		
Appropriation (adjusted)	137,500	91,500	101,100

[1] Selected resources as of June 30, are as follows:

	1961 actual	1962 adjustments	1962 actual	1963 estimate	1964 estimate
Accounts receivable (benefit overpayments collectible from beneficiaries)	986		936	936	936
Unpaid authorizations (approved authorizations for paraplegic housing and automobiles or other conveyances)	574	−78	399	399	399
Total selected resources	1,560	−78	1,335	1,335	1,335

Object classification

[In thousands of dollars]

	1962 actual	1963 estimate	1963 estimate
41 Grants, subsidies, and contributions	146,371	89,644	60,671
42 Insurance claims and indemnities	4,188	3,460	40,429
Total costs	150,559	93,104	101,100
Change in selected resources (−)	−148		
Total obligations	150,411	93,104	101,100

Mr. EVINS. Mr. Reporter, we will turn to readjustment benefits. Insert pages 10–1 through 10–4 in the record.
(The pages referred to follow:)

DEPARTMENT OF VETERANS' BENEFITS

READJUSTMENT BENEFITS, $101,100,000

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. Also this appropriation is to provide funds for transfer to the loan guarantee revolving fund to supplement income of the fund as required (74 Stat. 533).

Summary of requirements

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Education and training	$142,475,827	$88,912,324	$56,751,000	−$32,161,324
Loan guarantee	560	59,275,000	34,000,000	−25,275,000
Special assistance to disabled veterans	8,082,407	8,492,000	10,349,000	+1,857,000
Total cost	150,558,794	156,679,324	101,100,000	−55,579,324
Costs financed from obligations of other years, net (−)	−147,893			
Total obligations	150,410,901	[1] 156,679,324	101,100,000	−55,579,324
Transfer in	−2,500,000			
Unobligated balance brought forward	−14,515,225	−1,604,324		+1,604,324
Unobligated balance carried forward	1,604,324			
Appropriation	135,000,000	[1] 155,075,000	101,100,000	−53,975,000

[1] Includes estimated supplemental of $63,575,000.

EDUCATION AND TRAINING

World War II

Expenditures for subsistence allowance, tuition, supplies, equipment, settlement of old claims, and miscellaneous adjustments, amounted to $19,004 in fiscal year 1962. The average number of trainees was seven in fiscal year 1962. Activity in fiscal years 1963 and 1964 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 projections of the number of veterans who will be in training during fiscal years 1963 and 1964. Funds required for education and training benefit payments and unit cost per trainee are shown below:

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Average number trainees:			
Higher learning	60,332	33,300	18,200
Below college	25,655	13,400	6,950
Correspondence	7,371	4,300	2,460
Institutional-on-farm	1,641	500	170
Job training	1,450	500	220
Total	96,449	52,000	28,000
Average cost per trainee	$1,255.49	$1,233.89	$1,260.75
Total cost (Korean conflict)	$121,090,705	$64,162,324	$35,301,000

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 1963 and 1964 follow:

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Average number of trainees	12,863	15,000	13,000
Average cost per trainee	$1,661.05	$1,650.00	$1,650.00
Total cost (orphans)	$21,366,118	$24,750,000	$21,450,000
Total education and training	$142,475,827	$88,912,324	$56,751,000

LOAN GUARANTEE

In fiscal year 1962, $560 was paid from this appropriation representing 4 percent interest gratuity payments. Current legislation (74 Stat. 533), provides for transfer from this appropriation to supplement income of the loan guarantee revolving fund as required. It is estimated that $59,275,000 will be needed to supplement this fund in fiscal year 1963 and $34 million in fiscal year 1964.

SPECIAL ASSISTANCE TO DISABLED VETERANS

Vocational rehabilitation

The estimated requirements including Public Law 87-815 (extension of benefits to peacetime veterans) for tuition, books, supplies and equipment for vocational rehabilitation training, title 38, United States Code, chapter 31, as amended (74 Stat. 820), are shown as follows:

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Average number trainees—(Public Law 16 and Public Law 894 combined):			
Higher learning	1,370	1,875	3,400
Below college	2,560	2,450	3,500
Institutional-on-farm	252	185	200
Job training	776	690	900
Total	4,958	5,200	8,000
Tuition:			
Average number payments (excluding job training)	4,182	4,510	7,100
Average cost per trainee	$724.09	$711.09	$708.31
Total cost	$3,028,150	$3,207,000	$5,029,000
Supplies and equipment:			
Average number trainees	4,958	5,200	8,000
Average cost per trainee	$98.93	$100.00	$105.00
Total cost	$490,504	$520,000	$840,000
Total cost (vocational rehabilitation)	$3,518,654	$3,727,000	$5,869,000

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. Estimates for fiscal years 1963 and 1964 follow:

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Number	396	425	400
Average cost	$9,835.64	$9,800.00	$9,800.00
Total cost	$3,894,915	$4,165,000	$3,920,000

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 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Number	419	375	350
Average cost	$1,596.27	$1,600.00	$1,600.00
Total cost	$668,838	$600,000	$560,000
Total special assistance to disabled veterans	$8,082,407	$8,492,000	$10,349,000

Mr. EVINS. $101,100,000 is requested for readjustment benefits. [Reading:]

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. Also this appropriation is to provide funds for transfer to the loan guarantee revolving fund to supplement income of the fund as required by public law.

You have education and training costs estimated to be down $32,161,324.

The loan guarantee is reduced from $59,275,000 to $34 million, showing a decrease of $25,275,000.

Special assistance to disabled veterans shows an increase of $1,857,000. The total cost comes down some $55 million.

The readjustment work is phasing out but is still substantial.

We discussed training this morning earlier. I think we have put enough in the record on this, Mr. Chairman.

Unless there is a question we will turn to the direct loan program.

DIRECT LOANS TO VETERANS AND RESERVES REVOLVING FUND

The direct loans to veterans. This fund permits the Veterans' Administration to make direct loans to eligible veterans.

Mr. Reporter, place pages 11–1, 11–2, 11–3, and the chart in the middle of 11–4 in the record.

(The pages referred to follow:)

DEPARTMENT OF VETERANS BENEFITS

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 1962, a total of about $2 billion had become available for making direct loans from the following sources:

U.S. Treasury advances	$1,530,077,996
Principal repayments	360,856,239
Proceeds of sales to private investors	84,138,724
Total	1,975,072,959

As of June 30, 1962, direct loan funds expended amounted to over $1.7 billion. An additional $38.2 million had been reserved for loans in process, $7.4 million was outstanding in fund reservation commitments to builders or sponsors for direct loans on new houses they propose to construct for veteran purchasers, and transfer of $105.7 million to the loan guaranty revolving fund. This left a balance of $30.1 million in unreserved funds available for processing loan applications from veterans on waiting lists.

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.

Statement of program and financing

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Program by activities:			
Capital outlay:			
Direct loans to veterans	$207,038,233	$228,000,000	$216,000,000
Vendee loans made	5,312	5,000	5,000
Real property acquired	62,795	70,000	75,000
Total capital outlay	207,106,340	228,075,000	216,080,000
Change in selected resources	−16,186,585	+21,105,000	−3,500,000
Total capital outlay (obligations)	190,919,755	249,180,000	212,580,000
Operating costs, funded:			
Interest on borrowings	45,113,681	52,000,000	56,000,000
Operating expenses, general	214,127	200,000	225,000
Property management and selling expenses	393,459	500,000	650,000
Total operating costs, funded	45,720,667	52,700,000	56,875,000
Total obligations	236,640,422	301,880,000	269,455,000
Financing:			
Authorization to expend from public debt receipts:			
Permanent	150,000,000	200,000,000	150,000,000
Current	350,000,000		
Revenue and other receipts:			
Repayment of loans to veterans	70,579,459	77,725,000	82,235,000
Repayment of vendee loans	374,790	400,000	400,000
Sale of loans	19,487,920	18,000,000	18,000,000
Sale of properties	293,016	300,000	300,000
Interest on loans	61,820,749	69,500,000	75,000,000
Rental and other revenue	1,315,596	1,200,000	1,300,000
Total revenue and other receipts	153,871,530	167,125,000	177,235,000
Unobligated balance brought forward:			
Cash	139,386,534	49,746,641	95,503,721
Authorization to expend from public debt receipts		300,000,000	300,000,000
Unobligated balance transferred to "Loan guaranty revolving fund":			
Capital (74 Stat. 532)	−105,718,000		
Retained earnings (72 Stat. 1203)	−101,153,000		
Unobligated balance carried forward:			
Cash	−49,746,641	−95,503,721	−135,283,721
Authorization to expend from public debt receipts	−300,000,000	−300,000,000	−300,000,000
Unobligated balance lapsing		−19,487,920	−18,000,000
Financing applied to program	236,640,422	301,880,000	269,455,000

Direct loans to veterans.—The extension of veterans' eligibility to apply for direct loans permits the Veterans' Administration to make or enter into commitments 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 reach $1.6 billion in 1964. A summary of loan activities follows:

	Fiscal year 1962 actual	Fiscal year 1963 estimate	Fiscal year 1964 estimate
Number of loan commitments	18,159	23,500	19,676
Amount of loan commitments	$190,851,648	$249,105,000	$212,500,000
Number of loan disbursements and in process	19,699	21,500	20,000
Average cost per loan closed and in process	$10,510	$10,600	$10,800
Total disbursements on loans closed and in process	$207,038,233	$228,000,000	$216,000,000
Repayment of loans	$75,698,899	$81,825,000	$86,340,000
Sale of loans	$19,487,920	$18,000,000	$18,000,000
Losses on loans	$176,876	$175,000	$175,000
Net loan disbursements	$111,674,538	$128,000,000	$111,485,000
Loans outstanding, end of year:			
Number	175,909	190,609	203,609
Amount	$1,333,611,795	$1,461,612,000	$1,573,097,000

Vendee loans made.—These loans are the result of resales of real property acquired through foreclosure or voluntary conveyances, and normally involve a cash downpayment by the purchaser and the creation of a new mortgage loan to be held by the Veterans' Administration. The larger numbers of vendee accounts indicated for both 1963 and 1964 are anticipated by reason of the growing portfolio of loans owned, which increases the Government's exposure to delinquencies and foreclosures, as well as voluntary conveyances.

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Amount of properties sold	$3,879,275	$4,704,000	$4,773,000
Amount of vendee loans acquired	3,476,560	4,259,000	4,328,000
Amount of vendee loans repaid	594,280	674,000	697,000

Real property acquired.—Properties are acquired through foreclosures and voluntary conveyance in defaulted loans. The lesser numbers of properties acquired indicated in fiscal year 1963 and 1964 reflect the fact that a reduced volume of new loans were processed in fiscal year 1962.

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Amount of properties acquired	$5,506,296	$4,594,000	$4,622,000

Financing.—Loans are made primarily with funds borrowed from the U.S. Treasury. Borrowing authority in the amount of $1.8 billion was authorized through June 30, 1962. Authority has been granted to borrow an additional $200 million during the current year and $150 million in 1964. U.S. Treasury borrowings subsequent to June 30, 1962, will be reduced by the proceeds of loan sales in the preceding fiscal year. In addition, the proceeds of loan repayments and loan sales are available for making loans. Of the total funds to be made available from borrowings and program operations, it is expected that $228 million will be disbursed in the current year and $216 million in 1964.

Operating results and financial condition.—To date, interest and other earnings from the direct loan program have been sufficient to pay all interest due to the U.S. Treasury on advances, to cover all expenses which have been incurred, and to provide approximately $100 million for transfer to the loan guarantee revolving fund. In addition, a reserve for losses has been constituted with about

$10 million from earnings and future earnings will augment this reserve against future losses.

Statement of financial condition

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Assets:			
Treasury balance	$121,994,703	$190,843,000	$230,213,000
Accounts receivable, net	2,768,099	2,870,000	3,200,000
Loans receivable, net:			
Direct loans to veterans	1,333,611,795	1,461,612,000	1,573,102,000
Vendee loans	9,592,465	13,175,000	16,804,000
Real property owned	3,563,405	3,564,000	3,473,000
Real property in process of acquiring title	450,576	400,000	400,000
Total assets	1,471,981,043	1,672,464,000	1,827,192,000
Liabilities: Current	47,621,047	49,709,000	53,129,000
Government equity:			
Interest-bearing capital:			
Start of year	1,330,078,000	1,424,360,000	1,604,872,080
Borrowings from Treasury during year, net	200,000,000	180,512,080	132,000,000
Transfer to "Loan guaranty revolving fund" (76 Stat. 8)	−105,718,000		
End of year	1,424,360,000	1,604,872,080	1,736,872,080
Retained earnings end of year		17,882,920	37,190,920
Total Government equity	1,424,360,000	1,622,755,000	1,774,063,000

STATUS OF DIRECT LOAN REVOLVING FUND

Mr. EVINS (reading):

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.

Tell us what is the status of the direct loan fund.

Mr. BROWNSTEIN. As of December 31 accumulated Treasury advances had amounted to $1,640,078,000. We had sold direct loans totaling $90,289,000.

Principal collections amounted to $401,008,000.

The total available, $2,131,375,000.

Mr. EVINS. Do you mean this is the total amount of money that has been made available to this fund——

Mr. BROWNSTEIN. Since 1950, yes, sir. It is accumulative.

Mr. EVINS. How much do you have in the fund at the present time?

Mr. THOMAS. Unused authorization from the backlog of the Treasury. That is what he means.

Mr. BROWNSTEIN. I will give you a total breakdown on what we have used and what is unused, Mr. Chairman.

Last year you will recall in order to fund our loan guarantee revolving fund, the Congress directed a transfer of $115,247,000 from the direct loan revolving fund to the loan guarantee revolving fund. We have made loans totaling $1,876,882,000. We have commitments on loans outstanding but not disbursed totaling $37,269,000.

There are unallotted funds totaling $26,255,000. Our field stations had unreserved funds totaling $4,575,000 and reserved for loans in process $71,146,000.

Now, this totals $2,131,375,000.

In addition to this we have since that date allocated another $75 million to our field stations, which will be available for making loans in the future.

Mr. EVINS. You have about $26 million unallocated in your field stations at present?

Mr. BROWNSTEIN. Yes, sir. About $100 million in total that they are now working on on loans that were not yet committed plus $70 million reserve for loans that are in process.

Mr. EVINS. What is the total of applications on hand in your field stations?

Mr. BROWNSTEIN. We have the smallest waiting list that we have had in a long while, Mr. Evins.

STATUS OF TREASURY AUTHORIZATION

Mr. THOMAS. To keep the record straight, did he give you the figure of his unobligated authorization in the Treasury? How much is that?

Mr. BROWNSTEIN. In the Treasury?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. There is made available this year an additional $200 million. We have drawn $110 million of that.

Mr. THOMAS. You got a new authorization the year before last.

Mr. BROWNSTEIN. Yes, sir, for $1.2 billion in total.

Mr .THOMAS. How much remains in the Treasury unallocated?

Mr. EVINS. $125 million?

Mr. MONK. About $700 million.

Mr. GLEASON. If our waiting lists do continue, Mr. Evins, we will need every bit of it.

Mr. EVINS. I thought Mr. Brownstein said it was declining.

Mr. GLEASON. Well, it is declining from previous years.

Mr. EVINS. You mean you have $700 million authorization from the Treasury available?

Mr. GLEASON. Yes, sir.

Mr. BROWNSTEIN. This becomes available over a period of time and is available to us until 1967.

The total remaining in the Treasury authorization is about $725 million.

Mr. GLEASON. Korean veterans are eligible until about 1975.

Mr. EVINS. What is the average total number of commitments made under this program each year? How much do you actually require each year?

Mr. DRIVER. The direct loan program?

Mr. EVINS. Yes.

Mr. BROWNSTEIN. Well, last year we drew in new money about $200 million. In addition to that our repayments are added and these are running about—well, in total our repayments sales in new money about $300 million.

Mr. EVINS. You require about $300 million a year?

Mr. BROWNSTEIN. That is what we had last year.

Mr. EVINS. Over the years it is sometimes lower and sometimes higher, but on the average you require about $300 million a year?

Mr. BROWNSTEIN. Since 1950, which is 13 years, we have a total availability of $2,130 million. So that will average out at less than $200 million a year.

Mr. EVINS. If you have $700 million available credit in the Treasury——

Mr. GLEASON. We have $700 million.

Mr. BROWNSTEIN. There is about $700 million remaining.

Mr. EVINS. So this is 2½ years you could go before coming back to the bank?

Mr. BROWNSTEIN. Then after 1967 at which time the entitlement expires for World War II veterans, Korean veterans will remain eligible but the only money for funding this operation will be repayments.

Mr. EVINS. Do you estimate you will have enough from repayments and sales to carry on a limited direct loan program?

Mr. BROWNSTEIN. Beyond 1967 for Korean veterans; yes, sir.

Mr. THOMAS. Mr. Evins, your table here on 11–3 tells the tale. They are authorized to make direct loans not exceeding $10,000 in places where other financing is not available.

Mr. BROWNSTEIN. It is now $15,000.

LOAN COMMITMENTS

Mr. THOMAS. The number of loan commitments is 19,676 in 1964 against 23,500 in fiscal year 1963. What is the answer to the falloff?

Mr. BROWNSTEIN. We are having a higher than ever attrition rate, Mr. Chairman, on our waiting list. Our waiting list as I mentioned is down to the lowest point it has been in many, many years.

At the end of December we had only about 14,000 on our waiting list and in better than half of our offices there was no waiting list at all. The rate of washout on these is exceeding the rate that we have ever had in past years. It is now running well in excess of 50 percent.

REPOSSESSED PROPERTIES

Mr. THOMAS. What is the number of properties that you have repossessed in the last 5 years? You have set it out dollarwise but what about properties?

Mr. BROWNSTEIN. The total number we have repossessed since the beginning of the program is 2,651.

Mr. THOMAS. How many do you make loans for?

Mr. BROWNSTEIN. Fully closed and disbursed, 216,472.

Mr. THOMAS. You have foreclosed on how many?

Mr. BROWNSTEIN. 2,651. It is a percentage of 1.2.

Mr. THOMAS. How many do you have on hand now, direct loans?

Mr. BROWNSTEIN. How many loans are outstanding, Mr. Chairman?

Mr. THOMAS. How many foreclosed properties do you have on hand?

Mr. BROWNSTEIN. Under 600.

FORECLOSURES—DIRECT LOANS VERSUS GUARANTEED LOANS

Mr. THOMAS. How do your foreclosures compare in your loan guarantee program against your direct loan program?

Mr. BROWNSTEIN. Our direct loan program shows a better experience. Guaranteed loans, we have a fall-by-the-wayside rate of about 1.7 and direct loans 1.2, so it is a half percent better.

Mr. THOMAS. How many properties, direct loans, do you have on hand now?

Mr. BROWNSTEIN. Just under 600.

LOSSES ON ACQUIRED PROPERTIES

Mr. THOMAS. What is your average rehabilitation cost and what loss do you take on a direct loan house?

Mr. BROWNSTEIN. It is running a little less than on a guaranteed loan. We do not notice too much difference and the average loss we take is about $890. This is what it costs to rehabilitate, broker's commission, and so forth.

Mr. THOMAS. $890?

Mr. BROWNSTEIN. Yes, sir.

COMBINATION OF DIRECT LOAN AND LOAN GUARANTEE FUNDS

Mr. THOMAS. Why can't you combine these two funds, your direct loan and your general revolving fund?

Mr. BROWNSTEIN. Well I am afraid that the losses we pay in the guaranteed loan program would mean that we wouldn't get to make many direct loans.

Mr. THOMAS. What is that now?

Mr. BROWNSTEIN. If we had to pay our losses in the guaranteed loan program out of a combined fund it would take almost our total authorization and we would be making very few if any direct loans.

Now we do transfer to the loan guarantee revolving fund, retained earnings from the direct loan fund.

Mr. THOMAS. We understand that. Go ahead. You still haven't told me why you can't combine them. Is there any savings to be made from an administrative point of view? You have people doing each.

Mr. BROWNSTEIN. They operate combined.

Mr. DRIVER. We don't distinguish between the nature——

Mr. BROWNSTEIN. Our loan processors will handle a direct loan application and then a guaranteed loan.

Mr. THOMAS. Then I don't understand it from the point of view of financing.

Mr. DRIVER. We wipe out the money to make direct loans by the losses paid on the guarantee.

Mr. THOMAS. Go to the revolving fund.

Mr. BROWNSTEIN. Last year we took $115 million from the direct loan fund and paid off our losses.

Mr. THOMAS. Why not go on a little further and combine them? Is there anything to be saved in it? You do it anyway.

Mr. BROWNSTEIN. No, the Congress did it, Mr. Chairman.

Mr. DRIVER. We show them separately, that is all. If you made one fund responsible for the other's losses, and so forth, you would wipe out your direct loan fund.

Mr. BROWNSTEIN. We could make no direct loans because we wouldn't know what our losses were going to be in the guaranteed

loan program and we would have to maintain an adequate amount in the revolving fund.

Mr. THOMAS. After all, when either fund is depleted what do you do?

Mr. DRIVER. Come back and ask for more money.

Mr. THOMAS. What difference does it make, then?

Mr. BROWNSTEIN. We would have to shut off direct loan financing.

Mr. THOMAS. I don't follow it.

Mr. EVINS. Would you save any personnel if you did consolidate it?

Mr. BROWNSTEIN. None at all.

Mr. GLEASON. Because they are already consolidated as far as the personnel is concerned.

Mr. EVINS. The direct loan is intended for areas where capital funds are not available for veterans' loans?

Mr. BROWNSTEIN. That is right.

Mr. DRIVER. Congress has always shown a great interest in the difference between the two.

Mr. THOMAS. When was that hike made to $15,000, year before last?

Mr. BROWNSTEIN. Yes, sir.

DIRECT LOAN COSTS

Mr. EVINS. Suppose there is a farm veteran out here in the rural hill country who wants to get a $15,000 loan to build a house. How much discount does he have to pay? How much interest does he have to pay? How much does it cost him to get his $15,000 home?

Mr. BROWNSTEIN. Well, No. 1, he doesn't pay any discount at all. There is no discount on a direct loan. Secondly, we will charge him a fee of 1 percent which will cover his credit report, his appraisal, compliance inspections necessary during the course of construction, and that will be his total charge plus his usual loan closing costs of survey, title evidence, and so forth, and then he will pay interest at 5¼.

Mr. EVINS. What do these fees amount to dollarwise on a $15,000 loan?

Mr. BROWNSTEIN. They will vary a good deal depending on the title evidence, whether title insurance is obtained. But I would say they would average out to $300.

Mr. OSTERTAG. In the broad sense of the fiscal policy and the economic relationship in the country today as submitted to Congress by the President in his State of the Union Message, he made reference to the problem of the budget and the various programs and among other things he said:

> This requires the reduction or postponement of many desirable programs. The absorption of a large part of last year's Federal pay raise to personnel and other economies. The termination of certain installations and projects and—

this is my point—

> and the substitution in several programs of private for public credit.

COMPARISON OF LOAN GUARANTEE AND DIRECT LOAN PROGRAMS

Mr. GLEASON. You see, Mr. Ostertag, in the direct loan program you can't get the money from private investors. This is one of the require-

ments that you have to meet before you can get a direct loan. You can go to a bank or a savings and loan association and if they don't have the money available on their portfolio then you can come back to the Veterans' Administration and get a direct loan. Say it would be impossible for you to have a direct loan that hasn't already been turned down—not because of a credit risk, but unavailability of money.

Mr. OSTERTAG. On a guaranteed loan you could obtain your money.

Mr. GLEASON. That is exactly what we do.

Mr. BROWNSTEIN. He is ineligible for a direct loan if a guaranteed loan is available.

Mr. OSTERTAG. I am not so sure that I understand what the President had in mind when he made reference to the substitution in several programs of private for public credit. I don't know whether that has any bearing on this particular program. I mean, for example, the difference between direct as against guaranteed loans.

Mr. BROWNSTEIN. Unavailability of private financing is basic in the direct loan legislation.

Mr. OSTERTAG. In other words, in your direct loans the Government is in the loan business.

Mr. GLEASON. That is right, because he can't get it privately.

Mr. OSTERTAG. Normally you are not in the business except to guarantee.

Mr. DRIVER. The history of the direct loan program has been one coupled with an effort to stimulate private financing through the voluntary home mortgage credit program. You try to get the private financers to come in before you make direct loan money available.

Mr. OSTERTAG. My point is whether or not the President in presenting this policy to the Congress had in mind such programs as direct loans to veterans in the matter of substitution of private for public credit.

Mr. BROWNSTEIN. To the extent private funds are available, certainly I am sure everyone has in mind substituting those funds for direct Government financing. We continue to review our eligible direct loan areas to see if private money is available there and when it becomes available—and this we have been successful in doing in several places in the last year or so—we declare the area ineligible for further direct loans.

Mr. DRIVER. We withheld money available for direct loans a year ago because of the increased participation by private lenders.

FINANCING OF DIRECT LOAN REVOLVING FUND

Mr. EVINS. The financial condition of the fund is shown in the chart at the bottom of 11–4. It is estimated for 1964 you are going to have $1,774,063,000 in total Government equity in the fund.

Are there any further questions on the direct loans?

Mr. THOMAS. You will transfer that $37 million over to the loan guarantee fund this year?

Mr. BROWNSTEIN. The retained earnings?

Mr. THOMAS. Yes.

Mr. BROWNSTEIN. It could be that this will be necessary, Mr. Chairman.

Mr. THOMAS. Plus your supplemental?

Mr. MONK. Yes, sir.

Mr. THOMAS. Will that cover it all?

MORTGAGE LOAN SALES

Mr. BROWNSTEIN. It all depends on how we make out on selling mortgages.

Mr. GLEASON. If we can't sell the mortgages we will have to come back again.

Mr. THOMAS. Dollarwise, how many mortgages are you figuring on selling? What will it take to put the fund in good shape? Include your direct loans plus your supplementals? How many mortgages are you figuring on selling?

Mr. BROWNSTEIN. $147 million.

Mr. THOMAS. On top of that?

Mr. BROWNSTEIN. Yes, sir.

Mr. GLEASON. If we can.

Mr. THOMAS. For the fiscal year 1964 how much fresh money do you have to have?

Mr. MONK. $34 million we are asking for.

Mr. THOMAS. Plus another $150 million for mortgages sold plus $37 million you are going to transfer to direct loans. Will that give you $244 million?

Mr. BROWNSTEIN. $246 million—plus the repayments and other income that comes into our revolving fund.

EXPENDITURE LIMITATION—DIRECT LOANS

Mr. THOMAS. That is what you think it will require and the limitation is now $220 million and you want to increase that to what?

Mr. BROWNSTEIN. We are asking that it be removed. We are asking for fiscal year 1963 to go up to $311.6 million and in 1964 to be removed since these are uncontrolled obligations.

Mr. THOMAS. But as far as you can see now for fiscal year 1964 how much do you think you will have to have?

Mr. BROWNSTEIN. $246 million.

Mr. THOMAS. And it is now $220 million?

Mr. MONK. That is 1 year only.

Mr. BROWNSTEIN. We are asking that it go to $311 million for fiscal year 1963 and then $246 million for fiscal year 1964.

Mr. THOMAS. There is no need of having the supplemental unless the limitation is removed?

Mr. BROWNSTEIN. That is correct. We are going to run out of ceiling before we run out of money this year.

LOAN GUARANTEE REVOLVING FUND

Mr. EVINS. Mr. Reporter, on the loan guarantee revolving fund include in the record justification sheets 12–1 through 12–4.

(Pp. 12–1 through 12–4 follow:)

DEPARTMENT OF VETERANS' BENEFITS

LOAN GUARANTEE REVOLVING FUND

The loan guarantee revolving fund was established at the beginning of fiscal year 1962, in order that the revenues obtained from principal payments on vendee accounts and acquired loans, interest income from such assets, and miscellaneous income, such as, from the rental of properties, could be used to defray part of the expenses for paying claims, acquiring properties, managing properties and selling properties. Prior to fiscal year 1962, all expenditures relating to claims, property acquisitions, management expenses, and selling expenses were financed by direct appropriations under readjustment benefits. Receipts generated by program operations before fiscal year 1962 were paid into the general funds of the Treasury.

Statement of program and financing

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Program by activities:			
Capital outlay:			
Real property acquired	$197,871,831	$245,833,000	$184,000,000
Claims paid	14,025,674	22,450,000	16,850,000
Loans acquired	1,223,147	1,545,000	1,500,000
Repurchase of loans sold		10,000,000	7,805,000
Total capital outlay	213,120,652	279,828,000	210,155,000
Operating costs, funded:			
Property management expense	14,601,611	22,150,000	26,460,000
Sales expense	6,829,803	9,625,000	9,625,000
Total operating cost, funded	21,431,414	31,775,000	36,085,000
Total program (costs—obligations)	234,552,066	311,603,000	246,240,000
Limitation under existing legislation		220,545,000	
Proposed increase in limitation		91,058,000	
Limitation		311,603,000	
Financing:			
Revenue and other receipts:			
Loan and other repayments	17,372,447	19,275,000	22,425,000
Sale of loans	29,351,561	150,000,000	147,000,000
Sale of properties	7,145,532	8,500,000	9,240,000
Collection of claims receivable (veterans indebtedness)	3,124,575	2,500,000	3,500,000
Interest, rental, and other revenue	24,683,940	23,840,000	28,800,000
Working capital absorbed at inception of fund	1,336,660		
Payment from "Readjustment benefits" appropriation		59,275,000	34,000,000
Total revenue and other receipts	83,014,715	263,390,000	244,965,000
Unobligated balance brought forward		55,333,649	7,120,649
Unobligated balance transferred from "Direct loans to veterans and reserves revolving fund":			
Capital (74 Stat. 532, 76 Stat. 8)	105,718,000		
Retained earnings (72 Stat. 1203)	101,153,000		
Unobligated balance carried forward	−55,333,649	−7,120,649	−5,845,649
Financing applied to program	234,552,066	311,603,000	246,240,000

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. A substantial increase in property acquisitions occurred in fiscal year 1962, and a further increase has been experienced in fiscal year 1963. These increases occurred because of economic dislocations and unsettled conditions which have been particularly acute in certain areas. An improvement in economic conditions and a reduced number of outstanding loans, accompanied by

the further aging of remaining guaranteed or insured loans, should have the effect of lessening acquisitions in fiscal year 1964.

Properties acquired	Fiscal year 1962 actual	Fiscal year 1963 estimate	Fiscal year 1964 estimate
Number of properties acquired	17,735	22,350	16,425
Average cost per acquisition	$11,157	$11,000	$11,200
Total cost	$197,871,831	$245,833,000	$184,000,000

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. During fiscal year 1962, a substantial number of claims were paid. The volume of claims in fiscal year 1963 has been influenced largely by the large number filed in fiscal year 1962, but not processed for payment until the current year; new claims filed in fiscal year 1963 should be less than in fiscal year 1962, and further improvement is also projected for fiscal year 1964. Fewer numbers of claims are projected in fiscal year 1964 than fiscal year 1963 by reason of anticipated improvements in economic conditions.

Claims paid	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Number of claims paid	16,403	22,450	16,850
Average cost per payment	$855	$1,000	$1,000
Total cost	$14,025,674	$22,450,000	$16,850,000

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 forbearance will allow the veteran borrowers to cure the default.

Loans acquired	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Number of loans acquired	119	150	145
Average cost per acquisition	$10,277	$10,300	$10,300
Total cost	$1,223,147	$1,545,000	$1,500,000

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.

Repurchase of loans sold	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Number of loans repurchased	----------	1,000	780
Average cost per repurchased	----------	$10,000	$10,000
Total cost	----------	$10,000,000	$7,805,000

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. Increases in 1963 and 1964 reflect the larger inventory of acquired property.

Property management expenese	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Average number of properties	13,884	21,100	25,200
Cost per property	$1,052	$1,050	$1,050
Total cost	$14,601,611	$22,150,000	$26,460,000

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:

Sales expense	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
Number of sales	13,476	17,500	17,500
Cost per sale	$507	$550	$550
Total cost	$6,829,803	$9,625,000	$9,625,000

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 will be several years before this interest income and these principal repayments are sufficient to offset program costs, and make the funds self-sustaining. In the meantime, it will be necessary to obtain funds from other sources. In addition, anticipated sales of loans to private investors will produce $150 million and $147 million during fiscal years 1963 and 1964, respectively. An additional $59,275,000 in fiscal year 1963 and $34 million in fiscal year 1964 will be obtained by transfer from the readjustment benefits appropriation.

Proposed language change, 1963.—A language change will be proposed to remove the limitation of $220 million included in the Independent Offices Appropriation Act, 1963, for expenses involved in property acquisition and other loan guaranty expenses under chapter 37, title 38, United States Code.

Current estimates indicate that the number of guaranteed and insured claim payments and properties that private lenders will elect to convey to the Veterans' Administration, all uncontrollable, will exceed the total anticipated in the 1963 budget and the cost of these will exceed previous estimates by about $91 million. A request will be submitted to revise the limitation on expenses and provide supplemental financing for this fund under separate transmittal for 1963.

Statement of financial condition

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Assets:			
Treasury balance	$63,349,363	$14,667,000	$14,846,000
Accounts receivable	1,914,811	1,295,000	2,000,000
Advances for bidding at public sales	44,606	40,000	50,000
Claims receivable, net (veterans' indebtedness)	6,697,438	21,450,000	19,500,000
Loans receivable	461,037,353	460,472,000	458,752,000
Real property owned	158,662,257	244,277,000	277,927,000
Real property in process of acquiring title	40,967,420	45,000,000	50,000,000
Total assets	732,673,248	787,201,000	823,075,000
Liabilities: Current	9,930,526	8,841,000	11,000,000
Government equity:			
Non-interest-bearing capital:			
Assumption of assets, net, at inception of fund	521,335,349		
Start of year		728,206,349	787,481,349
Transfer from "Direct loans to veterans and reserves revolving fund":			
Capital (74 Stat. 532, 76 Stat. 8)	105,718,000		
Retained earnings (72 Stat. 1203)	101,153,000		
Payment from "Readjustment benefits" appropriation		59,275,000	34,000,000
End of year	728,206,349	787,481,349	821,481,349
Deficit (−), end of year	−5,463,627	−9,121,349	−9,406,349
Total Government equity	722,742,722	778,360,000	812,075,000

Mr. Evins. That gives you the full picture of this fund. This fund was established in 1962. At the beginning of fiscal year 1962. I thought it was in operation before then. [Reading:]

The loan guarantee revolving fund was established at the beginning of fiscal year 1962, in order that the revenues obtained from principal payments on vendee accounts and acquired loans, interest income from such assets, and miscellaneous income, such as, from the rental of properties, could be used to defray part of the expenses for paying claims, acquiring properties, managing properties and selling properties.

Then there is a showing of the number of claims paid. The average cost per acquisition for fiscal year 1963 was $11,000 and estimated for fiscal year 1964, $11,200. In 1963 fiscal year there were 22,350 properties estimated to be acquired and it is estimated for 1964, 16,425; loans acquired, a reduction from 150 to 145 in 1964; repurchase of loans sold pursuant to VA Regulation 4600. The Administrator may sell mortgage loans which have been created incident to the sale of VA acquired properties, with full recourse.

Mr. Thomas. Mr. Evins, will you let me interrupt you on two small points?

Mr. Evins. Yes.

PROPERTY ACQUISITIONS

Mr. Thomas. With regard to the number of properties acquired for fiscal year 1963, 22,350, how old are they? You come up with a figure of 16,425 for fiscal year 1964. How long have you had them on hand? Give us a little history of them. Break it down. It indicates that you acquired about 5,000 more during the past 12 months.

Mr. BROWNSTEIN. We acquired more than that.

Mr. GLEASON. But above the 1962 figure.

Mr. THOMAS. You should give Mr. Evins the corrected figure. The number you have on hand and some breakdown as to what years you acquired them, how old they are. Your justifications clearly point out the number, but bring it up to date because it is 6 months behind. Your acquisition cost runs around $1,000. Does that mean you have a loss of that much in it?

Mr. BROWNSTEIN. No.

Mr. THOMAS. You had better give us a little picture of your selling price. What about the market?

Mr. BROWNSTEIN. The market——

Mr. THOMAS. It was pretty good 2½ or 3 years ago when you had an ascending market, but you have now a stabilized or descending market and this figure of $1,000 doesn't cover it, does it? It doesn't tell the whole story.

PROPERTIES ON HAND

Mr. BROWNSTEIN. Of course we have on hand 20,397 properties. Of these 17,000——

Mr. THOMAS. What is that figure, now?

Mr. BROWNSTEIN. 20,397.

Mr. THOMAS. As of what date?

Mr. BROWNSTEIN. December 31.

Mr. THOMAS. That figure 22,350 will take care of all the properties acquired during fiscal year 1963 of which you have another 5 months to go.

Mr. BROWNSTEIN. We believe so, Mr. Chairman.

Mr. THOMAS. Go ahead.

Mr. BROWNSTEIN. 17,154 of these properties we hold in absolute title; 3,243 of them are subject to redemption. Those subject to redemption are not available for sale until the redemption period expires. Of those in absolute title, we have had 8,936 more than 6 months.

Mr. THOMAS. It would be 20,000 in round figures?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS. Go ahead and break it down further.

Mr. BROWNSTEIN. I cannot give you those we have had for a year or more. I would have to supply that, Mr. Chairman.

Mr. THOMAS. Will you insert a table in the record at this point?

Mr. BROWNSTEIN. Yes, sir.

Mr. THOMAS (continuing). Showing for the last years how old those properties are. Can you do that?

Mr. BROWNSTEIN. We will give you the best we can on that.

(The information supplied follows:)

Station	Properties on hand as of Dec. 31, 1962			Aging analysis of properties in absolute title				
	Total	Subject to redemption	Absolute title	Less than 6 months	6 months but less than 12	12 months but less than 18	18 months but less than 24	24 months and over
Alabama: Montgomery	542	518	24	21	3	0	0	0
Arizona: Phoenix	277	55	222	167	45	8	1	1
Arkansas: Little Rock	37	0	37	21	6	4	2	4
California:								
Los Angeles	1,624	0	1,624	956	444	148	49	27
San Francisco	441	0	441	354	70	17	0	0
Colorado: Denver	155	67	88	45	17	12	9	5
Connecticut: Hartford	82	0	82	38	23	13	4	4
District of Columbia: Veterans' Benefits Office	12	0	12	9	3	0	0	0
Florida: St. Petersburg	1,351	0	1,351	971	278	48	54	0
Georgia: Atlanta	228	0	228	116	57	35	11	9
Hawaii: Honolulu	0	0	0					
Idaho: Boise	10	2	8	7	1	0	0	0
Illinois: Chicago	1,896	494	1,402	501	395	218	170	118
Indiana: Indianapolis	103	0	103	72	27	4	0	0
Iowa: Des Moines	37	26	11	8	2	1	0	0
Kansas: Wichita	1,697	138	1,559	288	291	268	310	402
Kentucky: Louisville	191	0	191	85	58	26	20	2
Louisiana: New Orleans	299	0	299	158	58	48	18	17
Maine: Togus	61	29	32	20	9	2	1	0
Maryland: Baltimore	150	0	150	131	14	5	0	0
Massachusetts: Boston	232	0	232	109	73	28	13	9
Michigan: Detroit	4,666	1,734	2,932	1,124	961	520	147	180
Minnesota: St. Paul	184	77	107	65	32	9	1	0
Mississippi: Jackson	53	0	53	38	11	4	0	0
Missouri:								
Kansas City	201	19	182	148	27	6	0	1
St. Louis	86	0	86	45	20	18	2	1
Montana: Ft. Harrison	18	9	9	3	2	1	1	2
Nebraska: Lincoln	11	0	11	10	1	0	0	0
New Hampshire: Manchester	30	0	30	11	15	2	2	0
New Jersey: Newark	330	3	327	213	64	34	9	7
New Mexico: Albuquerque	155	12	143	77	43	17	5	1
New York:								
Buffalo	35	0	35	24	6	4	1	0
New York	256	0	256	156	59	18	5	18
North Carolina: Winston-Salem	73	0	73	48	14	9	2	0
Ohio:								
Cincinnati	231	0	231	110	78	29	9	5
Cleveland	430	0	430	252	107	33	23	15
Oklahoma: Muskogee	202	0	202	100	50	32	7	13
Oregon: Portland	16	8	8	5	2	0	1	0
Pennsylvania:								
Philadelphia	873	0	873	253	282	152	91	95
Pittsburgh	277	0	277	119	85	31	15	27
Wilkes-Barre	135	0	135	40	57	15	9	14
South Carolina: Columbia	83	0	83	49	6	4	2	22
Tennessee: Nashville	115	0	115	73	33	6	2	1
Texas:								
Dallas	340	0	340	183	82	39	27	9
Houston	538	0	538	361	110	37	17	13
Lubbock	840	0	840	443	170	103	63	61
San Antonio	758	0	758	197	105	96	97	263
Utah: Salt Lake City	59	14	45	24	15	5	1	0
Vermont: White River Junction	17	9	8	6	0	1	1	0
Virginia: Roanoke	35	0	35	24	7	1	3	0
Washington: Seattle	211	56	155	61	45	26	17	6
West Virginia: Huntington	31	0	31	13	9	4	1	4
Wisconsin: Milwaukee	272	56	216	126	48	23	11	8
Puerto Rico: San Juan	0	0	0					
U.S. total	20,986	3,326	17,660	8,478	4,420	2,164	1,234	1,364

Mr. THOMAS. Give us a horseback opinion of how long you carry one of these houses, from the time it is foreclosed until you finally sell it. What is your best guess?

Mr. BROWNSTEIN. Right now I would say it is running about 5 months on the average.

Mr. THOMAS. No more than 5?

Mr. BROWNSTEIN. No.

LOSSES ON PROPERTIES

Mr. THOMAS. What is a good figure on the average loss, your acquisition cost, your rehabilitation cost, your commissions paid and considering you may have a descending market?

Mr. BROWNSTEIN. A little better than $1,100 a property.

Mr. THOMAS. How much better?

Mr. BROWNSTEIN. $1,112 is our figure for fiscal year 1962.

Mr. OSTERTAG. That is average?

Mr. BROWNSTEIN. Yes.

ACQUISITION OF PROPERTIES

Mr. OSTERTAG. Let me see if I understand the situation as it applies to properties acquired.

At the end of fiscal year 1962 you had 17,735. You estimate there will be approximately 22,350 at the end of fiscal year 1963. That is an increase of nearly 5,000.

In the meantime you have disposed of a certain number, but actually you have acquired many more than 5,000 during the course of the year. But the point is the properties on hand will be about 5,000 higher at the end of 1963 than it was in 1962.

Mr. BROWNSTEIN. That is correct.

Mr. OSTERTAG. There is always a gradual turnover.

Mr. BROWNSTEIN. Yes.

We have so far in the program sold about 80 percent of our acquired property.

Mr. OSTERTAG. Right at that point, why do you estimate the low figure of 16,425 at the end of next year?

Mr. BROWNSTEIN. Well, we are hopeful that we are going to be in a better sales market next year and that we will be able to dispose of some of our inventory.

Mr. MONK. That 16,425 is properties acquired rather than properties on hand at the end of the year.

Mr. OSTERTAG. Do you mean you will acquire 16,425 during fiscal year 1964, added to what you would have on hand at the beginning of the year?

Mr. DRIVER. And then sell 80 percent of it.

Mr. OSTERTAG. In other words, that wouldn't be your net total on hand at the end of fiscal year 1964?

Mr. BROWNSTEIN. No.

Mr. OSTERTAG. The 22,350 is a total, is it not?

Mr. MONK. No, sir; that is acquisitions, too, in the fiscal year. But it does so happen that it is pretty close.

Mr. OSTERTAG. It is misleading then to show what you acquired during the year when you fail to show a balance of properties on hand.

Mr. BROWNSTEIN. We show on 12–3 that we estimate 17,500 sales for 1964.

Mr. OSTERTAG. That is the total you would sell out of whatever you have on hand?

Mr. BROWNSTEIN. Plus the inventory.

Mr. MONK. That would cut it down roughly a thousand, from the amount on hand as of June 30 this year, which would be around 25,000.

Mr. OSTERTAG. What was the net total of properties on hand at the end of each of these 3 years?

Mr. MONK. At the end of 1960 there were 6,160 properties on hand?

Mr. BROWNSTEIN. No, sir.

Mr. MONK. This is fiscal year 1960.

Mr. DERRON. At the end of fiscal year 1962 we had 17,484 properties on hand.

Mr. MONK. I said 1960, 6,160; at the end of 1961, 10,625. This is June of 1962, 17,484, and, as of December 31,1962, we had 20, 397 and we are anticipating 24,700 as of June 30, 1963.

Mr. EVINS. Everybody is correct.

CREDIT RATING OF BORROWERS

Mr. THOMAS. Mr. Evins, let me ask one more question. What part of these foreclosures do you attribute to errors in judgment made by your field offices in passing on credit?

Mr. BROWNSTEIN. I would not say that very much is due to that, Mr. Chairman. However, there is——

Mr. THOMAS. What is it due to?

Mr. BROWNSTEIN. There is an area that we have done a lot of tightening up in in the last year and that is poor credit reports. The basis on which these judgments were made, in other words. We have found that there were some mighty poor credit reports around the country and, of course, this is the key to your credit underwriting.

Mr. THOMAS. You and I are talking about the same thing. I asked you about credits. You call it credit reports. Go ahead.

Mr. BROWNSTEIN. I understood you to say poor judgment on the part of our people and this was not their judgment. They were basing it on information that they thought was reliable but it was not reliable.

Mr. THOMAS. You are responsible for the acts of your agents and, if your agents do not deliver, that is charged up to you. You are the agents of John Public, so he paid the bill, did he not? If you go out and ask X to furnish you a credit report, and he gives you bad information, we are going to charge that to you.

Mr. BROWNSTEIN. We are paying for it.

Mr. THOMAS. All right. What part of your loss do you credit to your poor judgment in the credit report?

Mr. BROWNSTEIN. This is a difficult thing to answer but I would say that maybe of those loans that have gone to foreclosure, possibly as high as 5 percent of them would not have been made had we had real good credit information.

Mr. THOMAS. One thousand, then, translated to terms of houses?
Mr. BROWNSTEIN. Fifty out of one thousand.
Mr. THOMAS. You have about 22,000 on hand, have you not?
Mr. BROWNSTEIN. About 21,000, yes, sir.
Mr. THOMAS. I will repeat then, about 1,000 houses.
Mr. BROWNSTEIN. Yes.
Mr. JONAS. Will you yield, Mr. Evins?
Mr. EVINS. Yes, Mr. Jonas.

REASONS FOR FORECLOSURES

Mr. JONAS. We can tie that down right quickly as to whether what you say is the primary reason for this high foreclosure rate by furnishing statistics showing what your rejection rate on applicants is now and how that has been increased.

Do you have figures which will show what your rejection rate was in fiscal year 1962 and 1963 for poor credit reporting only?

Mr. BROWNSTEIN. No, sir. We do not have those figures. Let me clarify one thing. I would not mean to imply that this is the principal reason for the foreclosures.

Mr. JONAS. What is the principal reason?

Mr. BROWNSTEIN. I think unquestionably the principal reason is economic dislocations. You can take the areas where we have our heavy concentration of property acquisitions and you can see that these are the ones.

Mr. JONAS. Have you put that in the record?

Mr. BROWNSTEIN. No, sir.

FORECLOSURES—GEOGRAPHIC LOCATIONS

Mr. JONAS. Where are those areas?

Mr. GLEASON. How many properties do we have in Wichita? The airplane industry moved from Wichita to the west coast.

Mr. BROWNSTEIN. I will give Mr. Jonas the areas of heavy concentration, including Wichita. Detroit—this is as of December 31—we have 4,666 properties.

Mr. JONAS. Is Detroit a depressed area?

Mr. BROWNSTEIN. Yes, sir.

Mr. JONAS. The automobile business is booming at the highest rate in history.

Mr. BROWNSTEIN. It also has a tremendously high unemployment rate, Mr. Jonas.

Mr. JONAS. In Detroit?

Mr. BROWNSTEIN. Yes, sir. When I say "Detroit," this is the regional office and it includes the State of Michigan.

Chicago: Again, this is the State of Illinois.

Mr. GLEASON. Actually, it is downstate more than near Chicago.

Mr. BROWNSTEIN. And Carpentersville, 1,896. Wichita, the one that the Administrator mentioned, and due almost totally to the fact that Boeing has curtailed very sharply the number of employees they have, 1,697; Los Angeles, which covers southern California, 1,624; St. Petersburg, the State of Florida, 1,351; Philadelphia, 873; Lubbock, 840.

Mr. JONAS. Texas?

Mr. BROWNSTEIN. Yes, sir; San Antonio, 758; Montgomery, Ala., 542; Houston, 538; San Francisco, 441; Cleveland, 430; Dallas, 340; Newark, 330; New Orleans, 299.

This comprises nearly 80 percent of the properties that we have on hand.

Mr. JONAS. When you list those cities you do not mean the foreclosures occurred in the city, but in the area served?

Mr. BROWNSTEIN. Yes, sir.

Mr. GLEASON. In the regional area.

Mr. JONAS. Do you have any records on North Carolina?

Mr. BROWNSTEIN. No, but it is quite low.

To show you this, I mention that this is 80 percent of our property holdings. In that same area the guaranteed loan percentage is 43 percent. It is a little shy of 2 to 1, the total number of business done.

Mr. EVINS. Veterans in North Carolina and Tennessee are pretty good credit risks.

DIRECT LOAN FORECLOSURES

Mr. THOMAS. Give Mr. Jonas the figure of the number of foreclosures or foreclosed properties you have on hand now for direct loans.

Mr. BROWNSTEIN. Under 600.

Mr. THOMAS. That is remarkable.

Mr. GLEASON. That is on direct loans.

Mr. DRIVER. Out of 200,000, how many?

Mr. GLEASON. Only 600 out of 216,000.

ANNUAL REPORT ON GUARANTEED AND INSURED LOANS

Mr. EVINS. This is a vital program, a very important program, and to round out the picture I am going to ask the reporter to include in the record pages 67 to 80 of the annual report, which gives a very concise picture with interesting graphs on this program.

(The material referred to follows:)

GUARANTEED AND INSURED LOANS

MISSION

The principal aim of the loan guarantee program is to provide the means whereby a veteran may obtain credit on favorable terms which will permit him to shelter his family suitably or to begin or operate a business or farming venture. The Veterans' Administration accomplishes this through the guarantee or insurance of home, farm, and business loans made by private lenders to veterans of World War II and the Korean conflict.

The program also aids worthy veterans to retain the homes, farms, or businesses they acquired with GI loans. This is achieved by encouraging lenders in all proper cases to grant indulgence, or to extend or reamortize loans where veterans are in temporary financial straits.

HIGHLIGHTS

Nearly 166,200 home, farm, and business loans were guaranteed during the year.

Loan applications were up 45 percent over the preceding year.

GI home loan activity continued to trend upward, owing to further easing in the general supply of mortgage money.

Almost 217,000 guaranteed home loans were repaid during the year.

THE GI LOAN

Loans guaranteed or insured for veterans (GI loans) are made for a variety of purposes, such as to buy or build a home; to provide a fallout shelter in a residential property; to conduct a business or farming enterprise; to buy livestock, machinery, tools, and other equipment; and for working capital. The maximum dollar amount or percentage of the loan which may be guaranteed varies with the purpose of the loan. Loans to purchase, construct, alter, repair, or improve a home; loans to purchase a farm on which there is a dwelling to be occupied by the veteran as his home; and loans to construct, alter, repair, or improve a farm dwelling to be occupied by the veteran as his home may be guaranteed up to 60 percent of the loan amount, but the guaranteed portion may not exceed $7,500. Loans for other farm purposes and for business purposes can be guaranteed up to 50 percent of the loan amount, with a guarantee limitation of $4,000 on real-estate loans and of $2,000 on non-real-estate loans.

As an alternative to the guarantee of loans, qualified lenders may have loans insured. For each loan insured, the lender receivers a credit to his insurance account of 15 percent of the loan amount, but not in excess of $4,000 for real-estate loans or of $2,000 for non-real-estate loans. Lenders are insured for losses on such loans up to the aggregate outstanding amount of insurance credits derived from all insured loans made.

VETERANS' ELIGIBILITY PERIOD

The terminal date of each veteran's entitlement for loan benefits is determined by the Veterans' Administration according to a formula prescribed by Public Law 87–84, approved July 6, 1961. Under the formula each veteran had 10 years of leigibility from date of discharge or release from his last period of wartime service, any part of which occurred during either World War II or the Korean conflict, plus 1 year of eligibility for each 3 months of active wartime service. The law specified that no World War II veteran's entitlement would expire prior to July 25, 1962, nor extend beyond July 25, 1967. Similarly, no Korean conflict veteran's entitlement would expire prior to January 31, 1965, nor extend beyond January 31, 1975. A veteran discharged or released for a service-connected disability from a period of active duty, any part of which occurred during World War II or the Korean conflict, is eligible for loan benefits until the terminal date specified for the wartime period from which he was discharged or released.

ROLE OF THE GI LOAN

Since the beginning of the program in 1944, the Veterans' Administration has guaranteed or insured over 6.1 million home, farm, and business loans to veterans of World War II and the Korean conflict. Nearly 5.8 million of these were home loans, totaling almost $52¼ billion.

These loans have contributed materially to the enormous increase in home-ownership during this period. There are some 30 million householders throughout the nonfarm areas of the Nation who own their homes—the greatest number in our country's history. More than 60 percent of all nonfarm dwelling units are owned by the occupant families, compared with 53 percent in 1950 and only 45 percent in 1930. Nearly 16 million of the homeowner properties in the United States today are mortgaged, and 22 percent of the mortgaged homes are financed with a VA-guaranteed loan.

GI loans have also played an important role in the homebuilding industry. Since the end of World War II there have been about 15½ million private nonfarm single-family dwelling units started in the United States, and approximately one out of every five was financed by a GI loan.

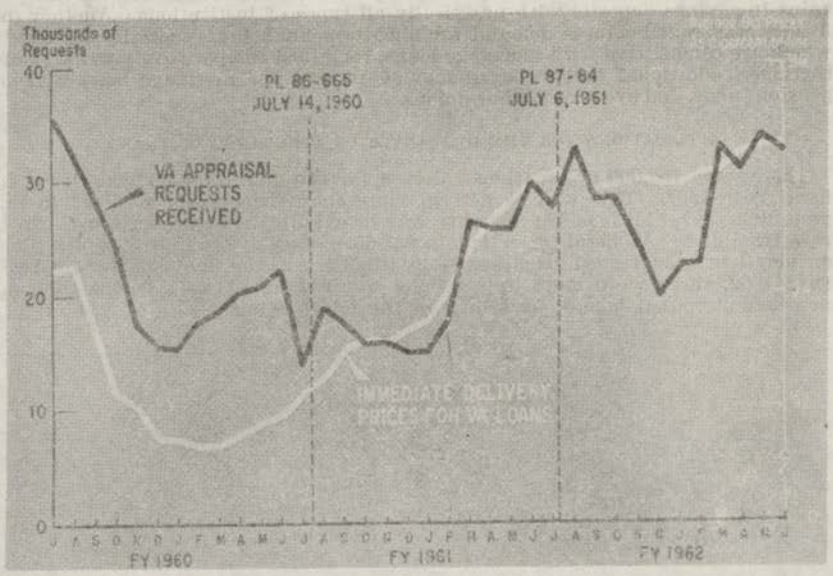
TRENDS IN LOAN GUARANTY APPRAISAL ACTIVITY

As shown in the chart below, the trend of loan guarantee appraisal activity is influenced very strongly by changes in VA loan prices in the private secondary market. These prices, in turn, reflect changes in the interest rate on GI loans as well as easing or tightening money market conditions.

For example, during the first half of fiscal year 1960 there was increasing competition for investment funds from virtually all segments of the economy

which pushed the general interest rate structure to higher levels. As a result, the new 5¼ percent GI loan interest rate which had been put into effect at the beginning of the year soon became less attractive to private investors. Discounts in the secondary market on GI loans rose markedly and the number of VA appraisals fell sharply.

APPRAISAL REQUESTS AND SECONDARY MARKET AVERAGE BID PRICES FOR VA LOANS



Appraisal activity and average bid prices for GI loans both recovered somewhat during the last half of fiscal year 1960. This was owing partly to seasonal influences, but also reflected a moderate decrease in the cost of money and some easing in mortgage terms as the growth rate of the total economy slackened.

In the opening month of fiscal year 1961, VA appraisal activity dropped sharply since there was much uncertainty among builders and sellers as to whether or not the entitlement of World War II veterans would be extended. This was not determined until mid-July when Public Law 86–665 was enacted. Among other things, that law extended the loan guaranty program until July 25, 1962, for World War II veterans. Appraisal activity recovered somewhat in August but showed the usual seasonal decline during the subsequent fall and winter months.

During the last half of fiscal year 1961, secondary market prices for GI loans continued to climb and the level of VA appraisal activity rose steadily, reaching an 18-month high in June. These trends reflected continuation of an easing in the general supply of mortgage money which started during the 1960–61 business recession, as well as various actions by the Government and Federal Reserve Board designed to depress long-term yields and reduce borrowing costs for home purchasers. Among these were renewed purchasing by the Federal Reserve System of Government securities maturing in more than 5 years; reductions in the maximum interest rate on FHA-insured loans (the first time in February 1961, from 5¾ to 5½ percent, and again in May 1961, from 5½ to 5¼ percent); adjustment by the Federal National Mortgage Association of its schedule of prices on the secondary market for Government-backed mortgages to exert a downward influence on mortgage yields generally; and a series of measures by the Federal Home Loan Bank Board to increase the supply of mortgage funds and lower the cost of housing credit available through Federal savings and loan associations.

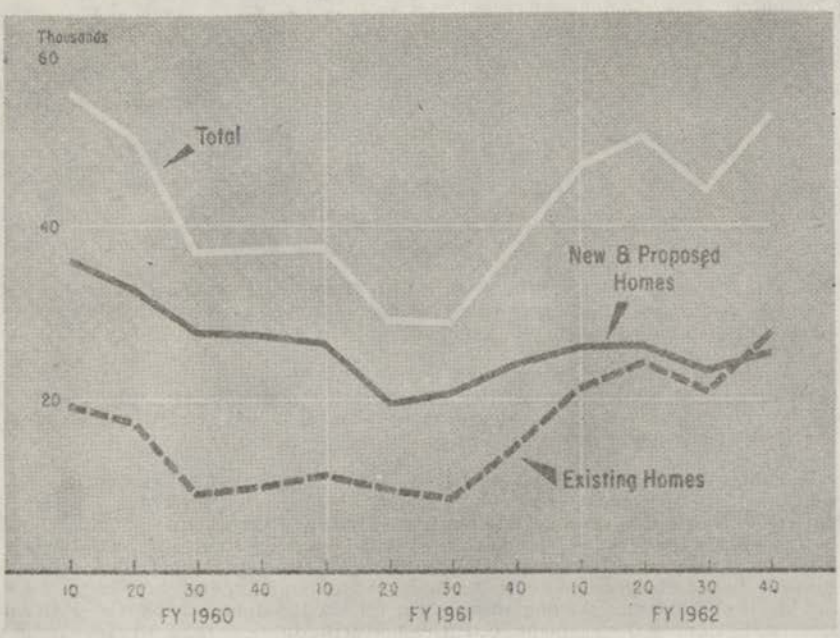
Fiscal year 1962 was characterized by a continued uptrend in GI home loan activity, except for seasonal fluctuations, and further gradual reductions in discounts for VA commitments. The supply of mortgage credit was as generous as it had been for some years, and the competition for good loans was intense.

On the supply side, several influences affected the lender's attitude toward mortgage investments. One was a dramatic rise in new savings in thrift institutions. The primary reason for this was the change by the Federal Reserve in Regulation Q which permitted commercial banks, beginning January 1, 1962, to pay 3½ percent for savings left with the banks for up to 1 year, and 4 percent if left with the banks for a year or longer. All other lenders, such as savings banks and savings and loan associations, also increased their interest rates in order to compete with the commercial banks. The result was substantial gains in savings deposits with practically all types of institutions. Another influence was that business demand for long-term financing, especially for bonds which are competitive with mortgage loans, remained comparatively weak. Furthermore, additional money began moving toward the mortgage market from pension funds, and even from labor unions.

APPLICATIONS FOR THE GUARANTEE OR INSURANCE OF LOANS

There were 195,000 applications received for the guarantee of home loans in fiscal year 1962. This was 45 percent more than the number received in the preceding year. Most of the increase was in existing-home applications, which rose from 43,469 in fiscal year 1961 to 93,865 in fiscal year 1962. Applications on new homes increased from 91,057 to 101,501. In the final quarter of fiscal year 1962, there were more applications received on existing homes than on new and proposed homes, as shown in the chart below.

VA HOME LOAN APPLICATIONS RECEIVED



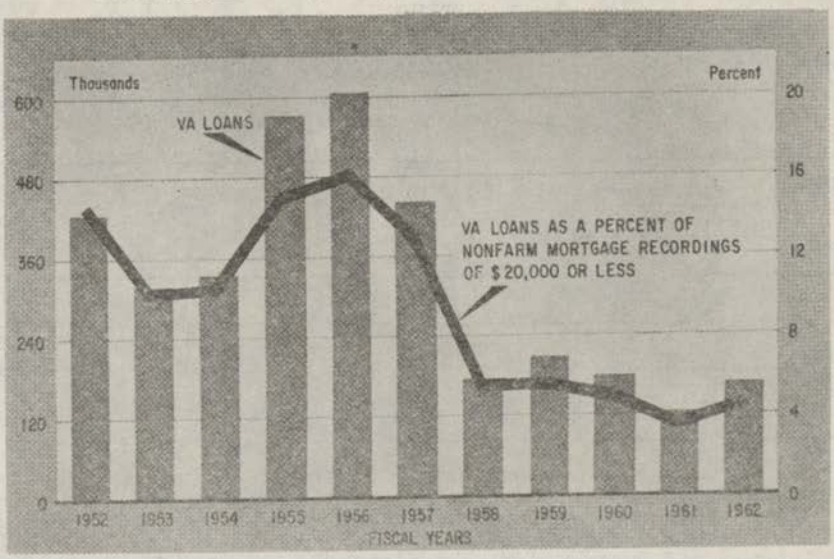
Applications for the guarantee or insurance of farm and business loans declined in fiscal year 1962. During the year, there were only 45 applications received for farm loans and 1,029 applications for business loans. Farm loan applications were down 45 percent from fiscal year 1961, and business loan applications were off by 13 percent.

LOANS GUARANTEED OR INSURED

During fiscal year 1962, a total of nearly 166,200 home, farm, and business loans, amounting to $2,286 million, were guaranteed or insured. This represented a considerable improvement over the preceding year with respect to both

the level of GI loan activity and the relationship of VA-guaranteed loans to nonfarm mortgage recordings of $20,000 or less, as shown in the chart below.

VA-GUARANTEED HOME, FARM, AND BUSINESS LOANS



There were 84,740 veterans who purchased newly constructed homes during fiscal year 1962, for which they paid $1,313 million and on which they obtained VA-guaranteed mortgages amounting to $1,285 million. This meant an average purchase price of $15,495, with an average downpayment of $330, leaving an average loan of about $15,165.

During the year, 78,700 veterans bought existing homes, for which the purchase price totaled $1,049 million and the loans amounted to about $989 million. The average purchase price was $13,330 with an average downpayment of about $765, leaving an average loan of about $12,565. In addition, 1,500 home improvement loans, amounting to well over $3 million, were guaranteed during the year.

During fiscal year 1962, mutual savings banks accounted for 13 percent of the GI home loan originations; savings and loan associations, 17 percent; life insurance companies, only 3 percent; commercial banks, 7 percent; while real estate and mortgage companies and others originated 60 percent of the total. However, many of the loans in the portfolios of permanent investors are obtained after origination, as is apparent from the table below:

Type of lender or holder	Original principal amount of GI home loans made, cumulative through June 1962		Outstanding amount of GI home loans held at end of June 1962 [1]	
	Amount (in millions)	Percent of total	Amount (in millions)	Percent of total
All types	$52,229	100.0	$29,500	100.0
Mortgage and real estate companies	21,200	40.6	[2]	[2]
Savings and loan associations	12,396	23.7	7,126	24.2
Commercial banks	9,385	18.0	2,547	8.6
Mutual savings banks	6,138	11.7	9,384	31.8
Life insurance companies	2,697	5.2	6,444	21.8
Federal National Mortgage Association			2,464	8.4
Individuals and others	413	.8	1,535	5.2

[1] Preliminary.
[2] Included with "Individuals and others."

HOME LOAN MATURITIES AND DOWNPAYMENTS

The trend of the past few years toward more liberal GI loan terms continued during fiscal year 1962, as will be noted in the table below:

NEW HOMES

Fiscal year	Percent of primary home loans made with maturities of—			Percent of primary home loans made with—	
	20 years or less	21 to 25 years	26 to 30 years	Downpayments	No downpayments
1958	5.2	25.5	69.3	95.2	4.8
1959	2.6	6.7	90.7	41.9	58.1
1960	1.3	4.9	93.8	32.1	67.9
1961	1.1	3.6	95.3	27.6	72.4
1962	.7	2.7	96.6	23.8	76.2

EXISTING HOMES

1958	63.7	25.7	10.6	98.8	1.2
1959	45.2	30.5	24.3	81.5	18.5
1960	42.5	31.1	26.4	72.6	27.4
1961	37.1	32.4	30.5	62.1	37.9
1962	20.0	28.5	51.5	47.3	52.7

The proportion of loans on new homes with long-term maturities of 26 to 30 years increased from 69.3 percent in fiscal year 1958 to 96.6 percent in fiscal year 1962, and on existing dwellings the ratio rose from 10.6 percent to 51.5 percent. Similarly, the proportion of loans made with no downpayment—on both new and existing homes—increased markedly over the years. The reason for the relatively few 100-percent loans made in 1958 is that there was a 2-percent downpayment requirement in effect during part of the fiscal year. However, a maximum maturity limitation of 30 years was in effect during the entire 5-year period.

LOANS REPAID IN FULL

During fiscal year 1962, there were almost 217,000 guaranteed home loans repaid in full. This was more than equal to the number of home loans guaranteed during the year.

From the beginning of the loan guaranty program through June 1962, about 91 percent of the business loans, 79 percent of the farm loans, and 34 percent of the home loans have been repaid in full. The smaller percentage of repaid home loans is due mainly to longer maturities on this type of loan.

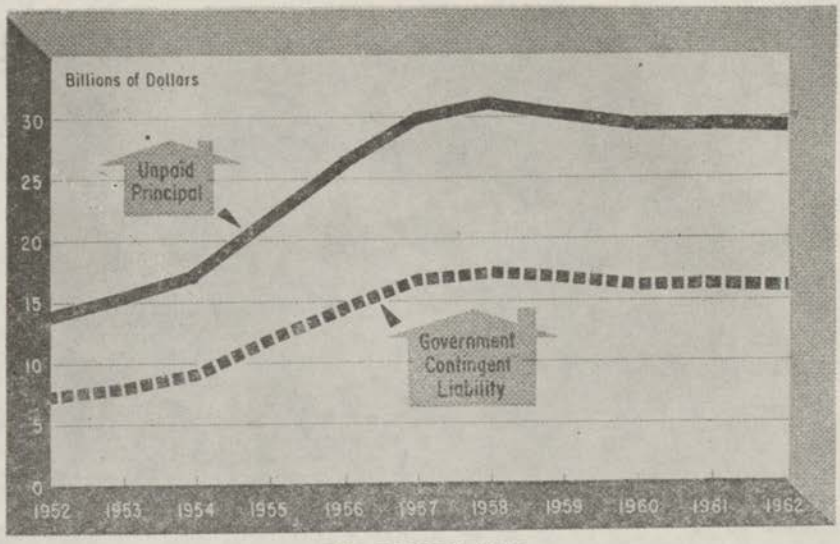
CONTINGENT LIABILITY

The VA's liability, as a guarantor of a loan, is limited to that amount which has the same percentage relationship to the unpaid indebtedness that the original amount of guaranty bore to the original amount of the loan. In other words, as payments are received and credited to reduce the balance of the loan, a proportionate reduction takes place in the amount of the guaranty. For example, an $8,000 home loan guaranteed for 60 percent, or $4,800, when reduced by payments to $6,000 is protected by a guaranty amounting to $3,600, or 60 percent, the same percentage of the loan which was originally guaranteed.

The VA's liability on insured loans extends to the accumulated credit balance in lenders' insurance reserve accounts, but not in excess of the unpaid principal balance of insured loans in force.

The estimated outstanding principal balance and Government contingent liability on guaranteed home loans in force during the past 10 years are shown in the chart below.

VA HOME LOANS OUTSTANDING



DEFAULTS AND CLAIMS

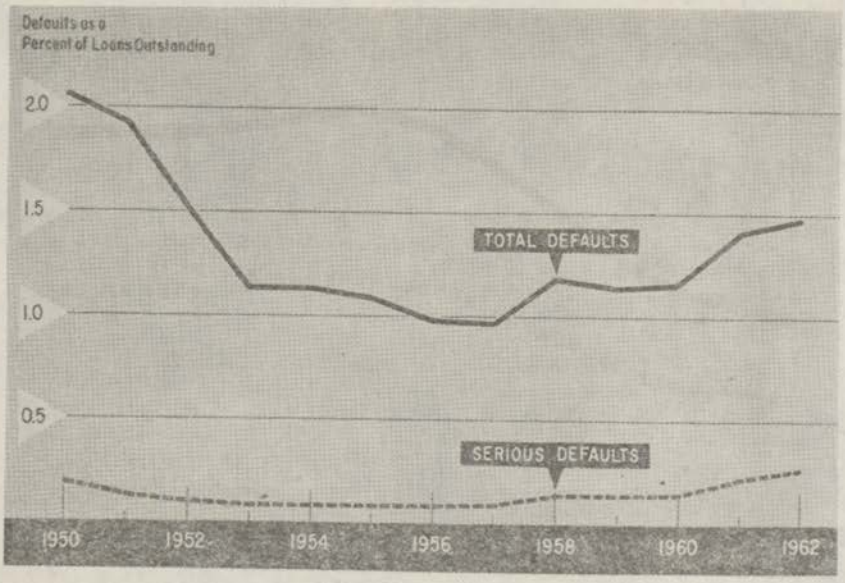
Lenders may report defaults on GI loans at any time up to 105 days after default occurs. In most cases defaults are cured and claims averted by arranging with veterans to pay the delinquencies, by modifying the terms of repayment, or by arranging for the disposition of the property without a claim payment.

From the beginning of the loan guaranty program through June 1962, about 85 percent of the home loans reported in default had been cured, and 84 percent of the farm loan defaults were settled without a claim. The record on business loans in default has been less favorable, with cures having been effected on about 62 percent of the defaults reported.

Cumulatively as of the end of fiscal year 1962, claims had been paid on 1.6 percent of the number of home loans guaranteed, on 3.2 percent of the farm loans, and on 6.4 percent of the business loans. As of the end of June 1962, the VA's loss on the operation of the home, farm, and business loan programs amounted to about $5.5 million. This takes into account interest income derived from mortgages taken by VA incident to the sale of acquired properties, rental, and miscellaneous revenues, but not salaries and administrative expenses of the programs. The $5.5 million represents about one one-hundredth of 1 percent of the original principal amount of the loans guaranteed or insured through June 30, 1962.

The ratio of home loans reported in default to the number of loans outstanding rose to 1.47 percent at the end of fiscal year 1962, from 1.40 percent at the end of the preceding year, but was still well below the 2.06 percent recorded at the end of fiscal year 1950. The number of loans in serious default (i.e., those which are considered to be insoluble and those on which claims are pending), as well as the number of claims paid, continued the rising trend. Indications are that the primary reason for the increase was the relative stability of housing prices during this period. Earlier there had been a rising housing market for a number of years, and a veteran in financial difficulties in the early years in the life of the loan usually was able to sell his home readily for an amount at least equal to the loan balance plus selling expenses. This has become more difficult to do in recent years. In addition, there are a number of areas where local economic conditions have been a contributing factor to the volume of defaults, foreclosures, and claim payments. Recent trends in defaults and claims are shown in the following table and chart.

GUARANTEED HOME LOANS IN DEFAULT



END OF FISCAL YEAR

Period	New defaults reported during quarter	Defaults pending at end of quarter		Claims paid during quarter
		Total	Serious	
Fiscal year 1961:				
1st quarter	24,230	46,834	5,600	2,714
2d quarter	25,689	48,984	6,025	3,006
3d quarter	31,337	53,439	7,375	3,217
4th quarter	28,496	53,222	8,448	4,078
Fiscal year 1962:				
1st quarter	26,165	54,315	8,360	4,429
2d quarter	26,834	56,278	8,936	4,336
3d quarter	29,826	58,224	9,887	5,034
4th quarter	23,988	54,893	10,114	5,308

PROPERTY ACQUISITION AND MANAGEMENT

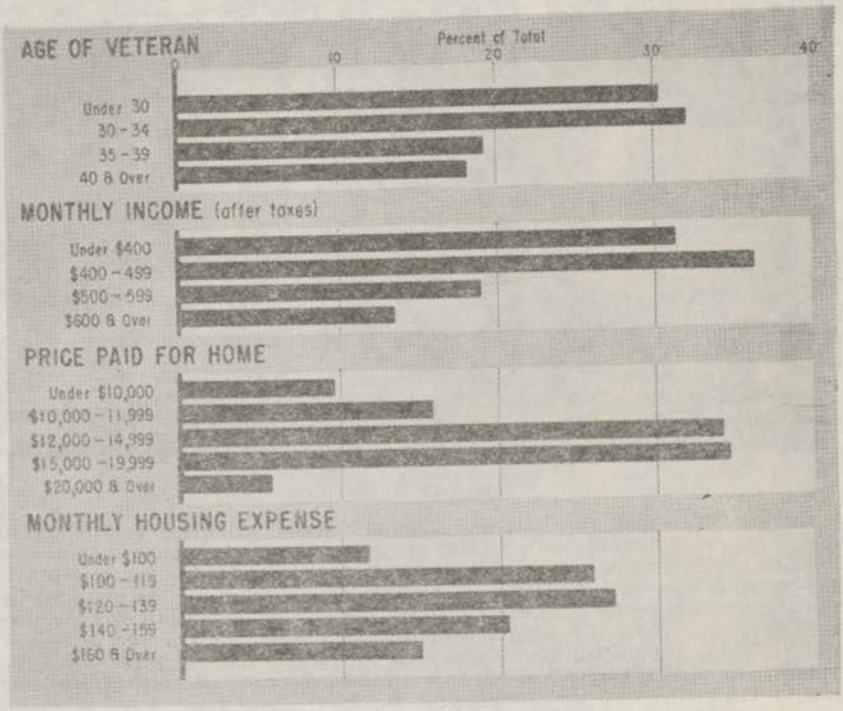
During fiscal year 1962, there were 20,442 properties acquired as a result of foreclosed loans which had been guaranteed or insured. This was an increase of 6,305 acquisitions over fiscal year 1961. On the other hand, sales of acquired properties rose during the year, by 3,861, to 13,470. Recent trends in property management are as follows:

Fiscal year	Properties on hand, beginning of year	Acquired during year	Sold during year	Redeemed during year	On hand, end of year
1960	5,559	10,617	9,950	66	6,160
1961	6,160	14,137	9,609	63	10,625
1962	10,625	20,442	13,470	113	17,484

CHARACTERISTICS OF VETERAN HOME BUYERS

The following table and chart give some idea of the typical veteran who obtained a guaranteed home loan in 1961. The data are based on a sample of primary home loans submitted to Veterans' Adminstration for prior approval.

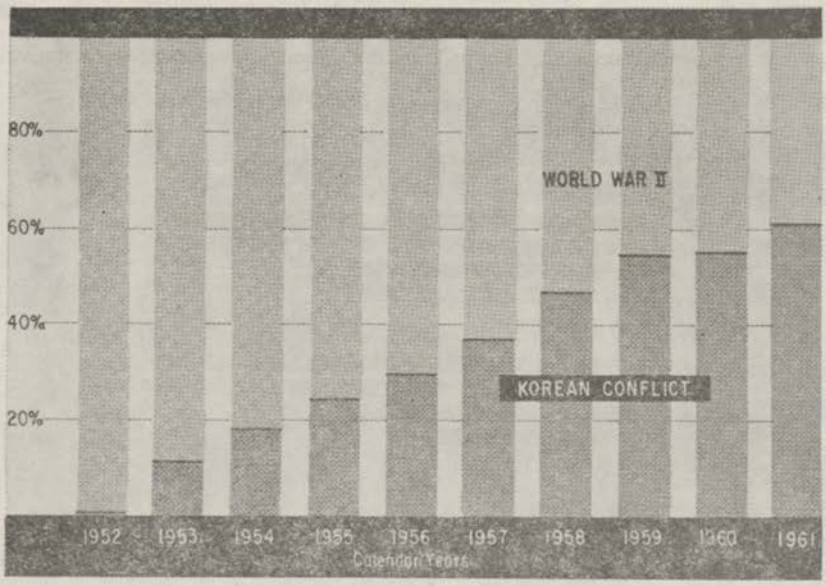
CHARACTERISTICS OF VETERAN HOME BUYERS IN 1961



Characteristics	Calendar years				
	1957	1958	1959	1960	1961
Median age, in years	32.3	31.6	31.5	32.2	32.2
Average annual income (after taxes)	$5,810	$5,800	$5,725	$6,050	$5,660
Average annual housing expense	$1,415	$1,460	$1,465	$1,565	$1,575
Expense as a percent of net income	24.4	24.8	25.6	25.8	27.9
Average price paid for home	$13,790	$14,095	$13,930	$14,465	$14,315
Average downpayment made	$1,050	$725	$450	$395	$330
Average amount borrowed	$12,740	$13,370	$13,480	$14,070	$13,985

It will be noted that the median age of veteran home buyers has remained relatively stable over the years. This reflects the fact that although all veterans naturally are growing older with the passing years, a greater proportion of GI home loans are being obtained by Korean-conflict veterans, who are generally younger than their World War II counterparts. In 1961, for example, Korean-conflict veterans bought almost 61 percent of the homes on which GI loans were closed, compared with 37 percent in 1957. (See chart below.) The average age of veterans who served solely in the Korean conflict was estimated to be 30.4 years at the end of 1961, as against 42.6 years for World War II veterans.

VA-GUARANTEED HOME LOANS, BY USE OF ENTITLEMENT



LOW-COST HOUSING

In September 1961, the Veterans' Administration authorized field offices to accept appraisal requests and to value properties constructed under the low-cost housing program of the Federal Housing Administration. The low-cost housing program was authorized under the National Housing Act, as amended by the Housing Act of 1961. Special low-cost housing minimum property requirements which conformed to similar standards published by FHA were issued by the Veterans' Administration. Essentially this action made it possible for the veterans to buy FHA-approved low-cost housing with the assistance of financing guaranteed by the Veterans' Administration.

LOAN GUARANTEE REVOLVING FUND

The loan guarantee revolving fund was established at the beginning of fiscal year 1962 in order that the revenues obtained from principal repayments on certain mortgage loans owned by the Veterans' Administration, income from interests payments on such assets, and miscellaneous income, such as from the rental of properties, could be used to defray part of the expenses for paying claims, acquiring properties, managing properties, and selling properties. Prior to fiscal year 1962, all expenditures relating to claims, property acquisitions, management expenses, and selling expenses were financed by direct appropriations, and receipts generated by program operations were paid into the general fund of the Treasury.

During fiscal year 1962, expenditures from the loan guarantee revolving fund amounted to $234.9 million. Revenues of the fund, which totaled $275.3 million, consisted of $206.9 million transferred from the direct loan revolving fund ($115,247,000 from capital and $91,624,000 from earnings), and $68.4 million received from program operations. Receipts from operations included $15.4 million from the sale to private investors of mortgage loans made by the Veterans' Administration incident to the sale of properties acquired following the termination of guaranteed or insured home loans. The loans were sold subject to the guarantee agreements contained in VA Regulation 4600, effective March 22, 1962. Basically, that agreement provides that, under the terms and conditions set forth therein, the Veterans' Administration will repurchase any loan in which a serious default occurs.

Vocational Rehabilitation Revolving Fund

Mr. Evins. Insert pages 13–1 and 13–2 in the record.
(The pages referred to follow:)

Department of Veterans' Benefits

VOCATIONAL REHABILITATION REVOLVING FUND

This fund is used to make loans ups to $100 to disabled veterans eligible for vocational rehabilitation who are without sufficient funds to meet their expenses (sec. 1507, title 38, U.S.C.). Repayments are used to make new loans.

Administrative expenses are borne by the appropriation "General operating expenses."

Workload, amounts loaned and repaid

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Number of loans made	2,262	2,000	1,750
Average per loan	$100	$100	$100
Number of loans outstanding	1,515	1,515	1,515
Average amount per loan outstanding	$50	$50	$50
Total loans	$226,109	$200,000	$175,000
Repayment of loans	$240,104	$200,000	$175,000

Summary of sources and application of funds

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Obligations	$226,109	$200,000	$175,000
Increase (−) or decrease in accounts payable, net	−1,240	1,240	----------
Gross expenditures	224,869	201,240	175,000
Revenues and other receipts	240,104	200,000	175,000
Increase (−) or decrease in accounts receivable, net	−295	2,726	----------
Applicable receipts	239,809	202,726	175,000
Budget expenditures	−14,940	−1,486	----------

Statement of financial condition

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
ASSETS			
Cash with Treasury	$316,186	$317,672	$317,672
Accounts receivable	2,726	----------	----------
Loans receivable	75,732	75,732	75,732
Total assets	394,644	393,404	393,404
LIABILITIES			
Accounts payable	1,240	----------	----------
GOVERNMENT INVESTMENT			
Non-interest-bearing capital: Start of year (end of year)	400,000	400,000	400,000
Deficit (−)	−6,596	−6,596	−6,596
Total Government investment	393,404	393,404	393,404

ADJUSTED SERVICE CERTIFICATE FUND

Mr. EVINS. Insert page 14–1 in the record.
(The page referred to follows:)

DEPARTMENT OF VETERANS BENEFITS

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 $111,373 during fiscal year 1962. It is expected that such payments will decrease to $100,000 in 1963 and to $90,000 in 1964. 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 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Program by activities:			
Operating costs: Adjusted service payment program: Payment of World War I adjusted service certificates (total obligations)	$111,373	$100,000	$90,000
Financing:			
Unobligated balance brought forward: Cash	2,978,022	2,866,649	2,766,649
Unobligated balance carried forward: Cash	−2,866,649	−2,766,649	−2,676,649
Total financing	111,373	100,000	90,000

DEPARTMENT OF INSURANCE

Mr. EVINS. Mr. Reporter, let us turn to the Department of Insurance.

For all appropriations for the Department of Insurance you are requesting $50,251,000. This amount represents a decrease of $7 million in 1963, and $12 million in 1962. The cost of your insurance programs is showing a substantially less amount of money.

Mr. GLEASON. This is a field, Mr. Evins, which our automatic data processing has helped reduce the cost. About 10 years ago we had approximately 11,000 employees in this program and this year approximately 2,600.

Mr. EVINS. $7 million savings from last year and $12 million from the preceding year.

Can you give us a little table showing us what the appropriation has been over the past 6 or 8 years?

(The information supplied follows:)

DEPARTMENT OF INSURANCE

General operating expenses—Obligations (not a separate appropriation)

Fiscal year:	*Obligations*	Fiscal year—Con.	*Obligations*
1955	$30,160,324	1959	$24,536,507
1956	26,595,960	1960	25,765,900
1957	24,634,858	1961	25,939,139
1958	24,894,583	1962	23,458,173

SUMMARY OF INSURANCE PROGRAMS

Mr. EVINS. I think this chart on page 15–3 could be included. I wish someone would explain it to us right hurriedly. Also insert 15–2.

(The pages referred to follow:)

DEPARTMENT OF INSURANCE

ALL APPROPRIATIONS, $50,251,000

Summary

For fiscal year 1964 $50,251,000 is requested. This amount represents a decrease of $7 million from fiscal year 1963 and $12 million from fiscal year 1962.

The requirements are classified into two categories: Viz, "General operating expenses" and "Veterans' insurance and indemnities." The tabular statement that follows is a summary of actual amounts appropriated in fiscal year 1962, the requirements for fiscal year 1963, and the requested appropriations for fiscal year 1964:

Summary of requirements

Appropriation title	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate
General operating expenses: Funds required—Total	$23,458,173	[1] $25,082,000	$20,091,000
Transfer from veterans special term insurance fund (Public Law 87-223)	−220,512	−40,000	−40,000
General operating expenses requirements	23,237,661	25,042,000	20,051,000
Veterans insurance and indemnities appropriation	39,200,000	32,000,000	30,200,000
Total, appropriations	62,437,661	57,042,000	50,251,000

[1] Includes proposed supplemental request of $713,000 covering pay increases and postal rate increases (Public Law 87-793).

The amounts requested under the general operating expenses appropriation provide for costs of administering and operating the insurance programs authorized by law (title 38, United States Code). In addition to the insurance programs, the Department is responsible for the servicemen's indemnities program (budgeting, accounting for, and paying running awards). Administering article IV of the Soldiers' and Sailors' Civil Relief Act of 1950 (guaranteeing premium payments to insurance companies on private life insurance policies carried by servicemen during active military service) is another responsibility of the Department.

The amounts under the veterans insurance and indemnities program provide for statutory payments to the U.S. Government life insurance fund, the national service life insurance fund, and the service-disabled insurance fund, and for direct payments to veterans and their beneficiaries under military and naval insurance, national service life insurance, and indemnities installments on death claims.

The insurance programs include: U.S. Government life insurance that originated during World War I (USGLI), national service life insurance that had its inception during World War II (NSLI), and the two programs created during the Korean conflict by amendments to the basic National Service Life Insurance Act (veterans' special term insurance and service-disabled veterans insurance).

The following statistical data shows the number of policies in force, the total face value of such policies, and the income, disbursements, and total assets for the various funds of the insurance programs.

[In millions]

Program	Policy data, June 30, 1962		Revolving and trust fund data		
	Policies in force	Face value	Fiscal year 1962 income	Fiscal year 1962 disbursements	June 30, 1962, fund assets
U.S. Government life insurance	0.29	$1,287	$80	$129	$1,137
National service life insurance	5.01	32,573	749	672	6,240
Veterans special term insurance	.65	5,758	30	44	89
Service-disabled veterans insurance	.05	433	5	7	2
Total	6.00	40,051	864	852	7,468

Mr. EVINS. Who is the Chief of Insurance? Tell us about the number of policies in effect, national service life insurance, various other insurance programs.

Mr. BUDD. From World War I we had less than 300,000 policies in force now with a face value of $1,287 million national service life we have 5 million policies in force of over $32,500 million. We had the veterans' special term—essentially the Korean insurance—we have 650,000 policyholders with $5.7 billion, and the service disabled we have 50,000 policyholders with $433 million.

Mr. EVINS. You have a whole lot of figures there that are not shown in this.

Mr. GLEASON. In 15–3, Mr. Evins.

TOTAL POLICIES IN FORCE

Mr. EVINS. Number of policies in force?

Mr. BUDD. 290,000, sir.

Mr. EVINS. For a face value of $1,287 million. National service life is 5 million, at a face value of $32,573 million.

Mr. GLEASON. For the Korean veteran, there were 650,000 policies.

Mr. EVINS. This is special term insurance.

Mr. GLEASON. Yes, sir, for a total of $5,758 million.

Mr. EVINS. Making a grand total of——

Mr. BUDD. Six million policies and over $40 billion.

Mr. GLEASON. That is the face value of the insurance.

Mr. EVINS. That is the largest insurance company in the world; is it not?

Mr. GLEASON. No, sir, the third largest.

SOURCES OF INCOME—DISBURSEMENTS

Mr. EVINS. $864 million is the income per year, premium payments on these policies?

Mr. BUDD. And interest earnings, sir. There are two sources of income, premium payments and interest earnings.

Mr. EVINS. Disbursements are $852 million.

Mr. BUDD. Yes, sir, for 1962.

Mr. EVINS. Why can't you make those disbursements level out with the income? That does not balance.

Mr. BUDD. Yes, sir. The disbursements are heavier than normal in 1962. This is the year we had a special dividend also.

ANNUAL REPORT—INSURANCE

Mr. EVINS. Are there any questions on the insurance? I will ask that the tabulation in the annual report be included on insurance at this point.

Mr. GLEASON. Pages 90 and 91 and 92?

Mr. EVINS. Put in pages 87 through 92.

(The pages referred to follow:)

INSURANCE

MISSION

The Veterans' Administration administers four distinct life insurance programs for the benefit of veterans, servicemen, and their beneficiaries. These are:

(1) U.S. Government life insurance.
(2) National service life insurance.
(3) Veterans special life insurance.
(4) Service disabled veterans insurance.

The first two programs (USGLI–NSLI) are generally associated with veterans of World Wars I and II, respectively. The latter two programs (VSLI–SDVI) are generally identified with veterans of the Korean conflict.

HIGHLIGHTS

Productivity reached a new high of 1,760 policies serviced per employee.

Preparations were made to convert the balance of the insurance accounts to a magnetic tape operation.

A special dividend amounting to over $36 million was paid to about 470,000 VSLI policyholders who had converted or exchanged their original policies.

Beneficiaries of deceased policyholders were paid more than $369 million.

Total assets of all the insurance funds as of June 30, 1962, amounted to about $7½ billion.

GENERAL

The first Government life insurance program was authorized 45 years ago. War-risk insurance—yearly renewable term—was established in October 1917. The U.S. Government life insurance program was initiated in May 1919. This program permitted policyholders of yearly renewable term to convert their policies to permanent plans of insurance. In June 1926, term insurance was added to the USGLI program. Policyholders of USGLI participate in dividends (gains and savings derived from favorable mortality experience and excess interest earnings over and above the reserve requirements).

National service life insurance was authorized on October 8, 1940. This insurance is also participating and provides both term and permanent plans. NSLI was available to servicemen who served in the Armed Forces between October 8, 1940, and April 25, 1951, and to veterans from August 1, 1946, through April 25, 1951.

In April 1951 two more programs were authorized. These were VSLI (veterans special life insurance), available until December 31, 1956, and SDVI (service disabled veterans insurance) which is still available. Both of these programs are normally nonparticipating although a special dividend was authorized by legislation for the VSLI program during fiscal year 1962. VSLI was

generally provided for veterans without service-connected disabilities, while SDVI is available only to those with service-connected disabilities.

A separate fund has been established in the U.S. Trasury for each of these programs. Each fund is credited with its own premium and interest payments as well as other income, and each is similarly debited with its own disbursements.

The administrative cost of these programs is borne by the Government. Claims against USGLI and NSLI policies which are traceable to the extra hazards of military service are also paid by the Government.

EMPLOYMENT AND WORKLOAD

The magnitude of the VA's insurance operating workload is directly related to the number of policies maintained by field stations. Policies in force reached a peak of 16 million in 1945. However, with the start of demobilization in that year and during the next 5 years, many veterans allowed their insurance to lapse. In 1950 insurance in force had declined to about 6.1 million policies. From fiscal year 1950 through fiscal year 1962, except for the period of the Korean conflict when a large number of new issues were recorded, the number of policies in force from year to year was relatively stable. The average number of policies maintained for this 12-year period was over 6 million with a face value of $40 billion.

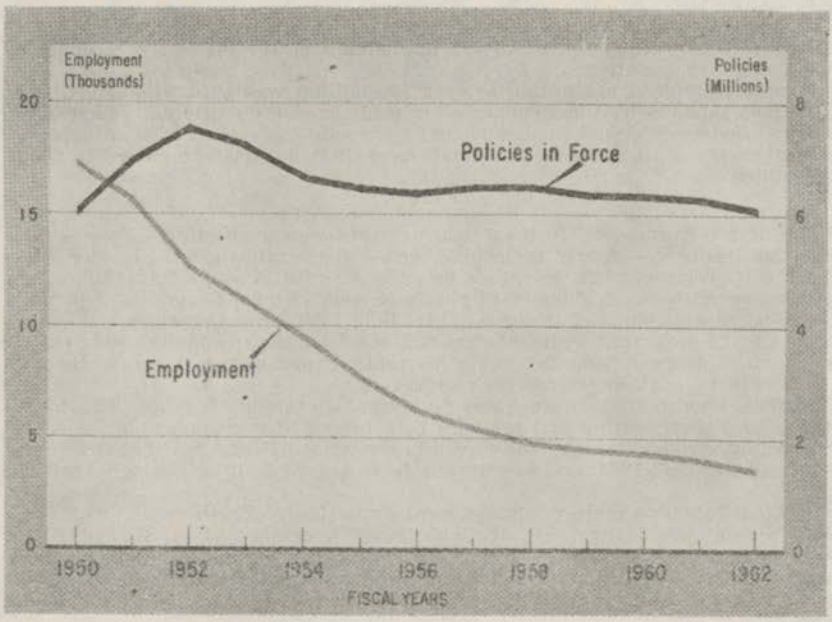
During the same period, 1950–62, total insurance employment declined from an average of 17,432 in fiscal year 1950 to an average of 3,439 for fiscal year 1962. Thus, in 1950, 1 employee was needed to service about 350 insurance accounts. Today, 1 employee services about 1,760 accounts—5 times the number service only 12 years ago. Several major factors contributed to this accomplishment:

(1) Reorganizations combined with the consolidation of field stations.

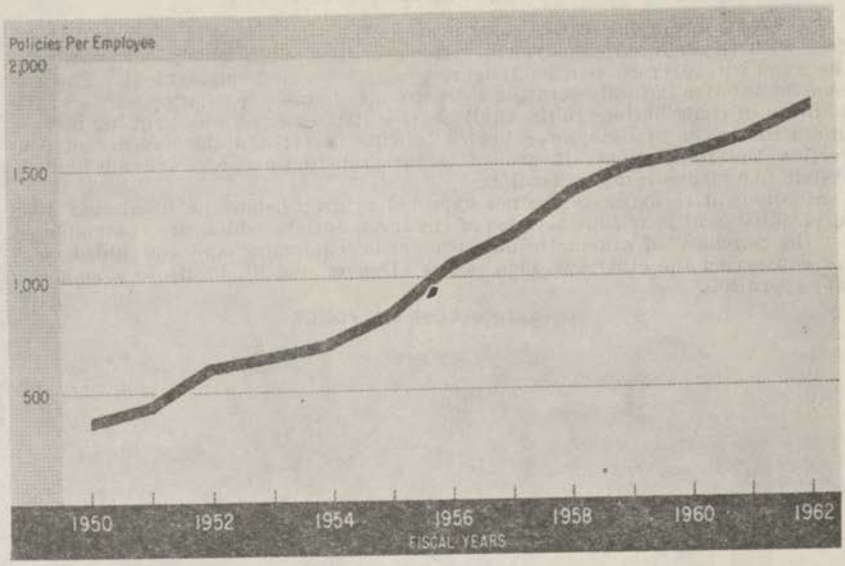
(2) The many improvements and refinements to operating procedures, systems, and methods, including the use of the latest mechanical and electronic equipment. The manual system gradually gave way to a combined manual-punched card mechanized system. This, in turn, was succeeded by a magnetic tape operation which services about 3.7 million accounts.

(3) Increased employee productivity attained through training and experience.

EMPLOYMENT AND WORKLOAD TRENDS

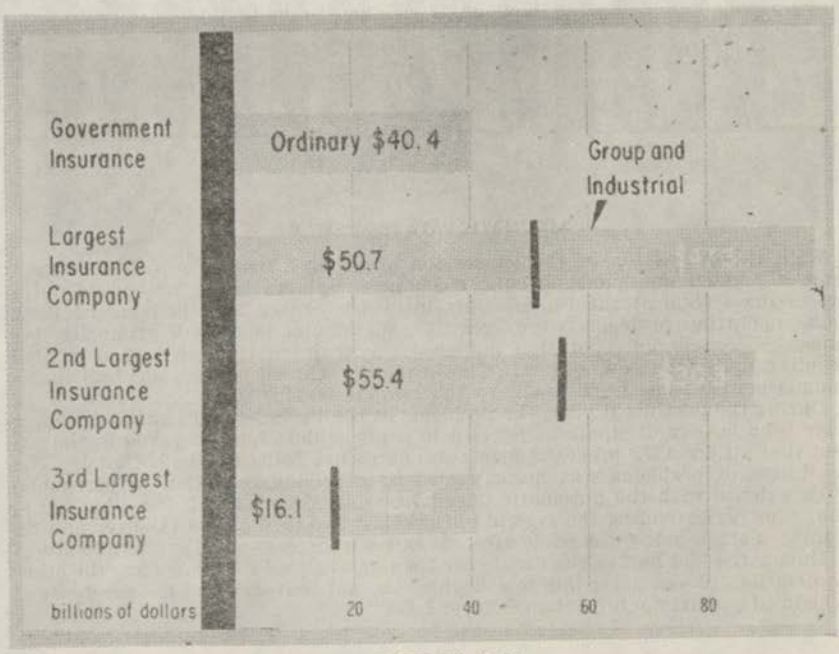


POLICIES SERVICED PER EMPLOYEE



Based on total amounts of insurance in force, the Department of Insurance is the fourth largest insurance operation in the United States. With group and industrial insurance excluded from commercial company totals, the Department of Insurance ranks third.

COMPARISON OF INSURANCE IN FORCE



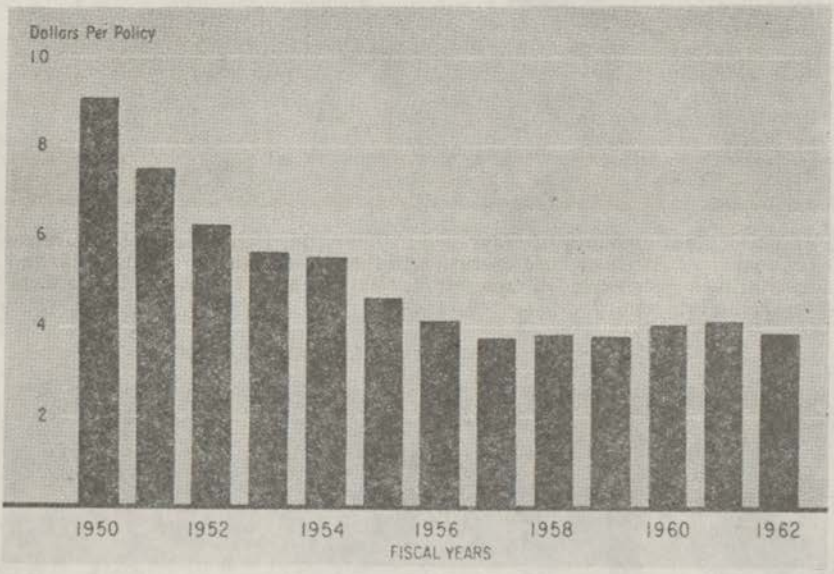
DECEMBER 31, 1961

ADMINISTRATIVE COSTS

The trend in administrative costs over the 1950–62 period has generally kept pace with the reduced employment. However, beginning with fiscal year 1958, the trend was reversed, to a small degree, despite lowered employment. The reasons for the rise in total operating costs are attributable to salary increases; the addition of contributions to the Civil Service Retirement Fund, printing and reproduction costs and employee health benefits costs; and the expense of converting the Philadelphia insurance center from a punched card mechanized system to a magnetic tape operation.

Administrative expenses are not expected to drop below the fiscal year 1958 level until fiscal year 1964 because of the large outlays which are contemplated for the purchase of automatic data-processing equipment and the added costs for converting the other two field offices (Denver and St. Paul) to a magnetic tape operation.

OPERATING COST PER POLICY



AUTOMATIC DATA PROCESSING

With the completion of the conversion of about 3.7 million NSLI accounts from a manual and punched card mechanized system to an automatic data-processing system at the Philadelphia insurance center in September of 1960, many operating problems were created. Workloads increased, primarily, because the conversion operation outpaced the training that clerical personnel required under the new system. The heavier workload caused backlogs to accumulate with some impairment to the normal service to policyholders.

During the past fiscal year, the problems at the Philadelphia insurance center have been largely dissipated. Service to policyholders has improved to the extent that all pre-ADP processing-time standards are being met or bettered. The resolution of problems was accompanied by a steady reduction in personnel.

Experience with the automatic data-processing system at Philadelphia led to the plans for extending the system to the other two field offices (Denver and St. Paul). This decision was made after an extensive agency ADP evaluation study.

During the last half of the fiscal year the preparations for converting the other two stations moved according to schedule. Actual conversion of the records was scheduled to start not later than October 1, 1962.

The plans involved the establishment of a data-processing center at Philadelphia equipped with a single large-scale computer to operate in conjunction with small-scale computers in the insurance offices at Philadelphia, Denver, and St. Paul. The latter two office systems will be linked with the data-processing center by high-speed magnetic tape-to-tape data transmission.

The full conversion operation is scheduled for completion by June 30, 1963. Following conversion, the three insurance offices will have compatible systems of operation with similar functional responsibilities.

PAYMENTS OF INSURANCE BENEFITS

Payments in the form of policy dividends, matured endowments, cash surrenders, and disability benefits are made to policyholders of Government life insurance. Other payments are made to beneficiaries of deceased policyholders. These payments are substantial and, spread throughout each of the Nation's 50 States, have a significant effect on the national economy.

From the inception of the insurance programs through fiscal year 1962, payments in excess of $17 billion have been made to living policyholders and beneficiaries.

During fiscal year 1962, $369 million was paid to beneficiaries, $337 million in dividends to policyholders (including the $36 million special dividend payment on VSLI), $30 million in benefits to disabled policyholders, $25 million in surrendered policies, and $20 million in matured endowments.

Mr. JONAS. Will the gentleman yield?

Mr. EVINS. Mr. Jonas is recognized.

Mr. JONAS. You operate this insurance business at a cost of $50 million a year?

Mr. BUDD. No, sir, the budget for the general operating cost is $20 million. The $30 million is for appropriations provided by law, direct payments, extra hazards and such.

ADMINISTRATIVE EXPENSES FOR LIFE INSURANCE PROGRAMS

Mr. JONAS. The general operating expense is $20 million?

Mr. BUDD. Yes, sir.

Mr. JONAS. Is that out of appropriated funds?

Mr. BUDD. Yes, sir.

Mr. JONAS. No part of that is paid by the policyholders?

Mr. BUDD. No, sir, by law the Congress has provided the administrative cost be paid by appropriation.

Mr. GLEASON. Mr. Jonas, this is the lowest operating cost per policy of any insurance company.

Mr. JONAS. Have you given any consideration to recommending a change in the law, to let these expenses come out of the insurance?

Mr. GLEASON. Yes, we have, if the House and the Senate pass the reopening of the national service life insurance bill. Anyone who would then take out their insurance would have to pay the administrative cost.

Mr. DRIVER. On existing policies it has been decided that it would not be possible because of the contractual nature. It was considered several times by the committee in the House. They have always withdrawn from doing it because of those reasons.

Mr. BUDD. GAO even went to the Department of Justice.

Mr. GLEASON. If it were to be reopened, Mr. Jonas, then the veteran would pay the administrative cost.

Mr. JONAS. That would apply only to the veterans who take out the new policy?

Mr. GLEASON. Yes. The Administrator would have the authority either to increase that or decrease it depending upon the actual cost.

GENERAL OPERATING EXPENSES, DEPARTMENT OF INSURANCE

Mr. EVINS. Place in the record pages 16–1 through 16–10.

(The pages referred to follow:)

DEPARTMENT OF INSURANCE

GENERAL OPERATING EXPENSES, $20,091,000

General statement

The Department of Insurance is responsible for providing services and insurance benefits to policyholders and their beneficiaries under the existing insurance programs authorized by law. The basic functions are:

1. The operations in connection with maintaining insurance accounts including:
   (*a*) Receipting and accounting for all monies received for credit to funds and appropriations.
   (*b*) Authorizing and certifying for payment applications for loans, surrender of policies for cash and matured endowments.
   (*c*) Authorizing reinstatements, refunds, dividend payments, and renewals under certain prescribed conditions.
   (*d*) Examining and certifying insurance death and disability vouchers for payment from funds and appropriations.

(2) Approving, rejecting, or disapproving applications for life insurance and total disability income riders and contract changes.

(3) Adjudicating, granting, or denying claims for insurance disability benefits.

(4) Determining liability of the national service life insurance and U.S. Government life insurance funds under the extra hazards provisions of law.

All of the insurance accounts in the Philadelphia insurance center, except USGLI accounts, were maintained under the automatic data processing system during fiscal year 1962. Conversion of the western offices' insurance accounts to automatic data processing will be completed in fiscal year 1963. The Denver office conversion began September 10, 1962, and will be completed by April 10, 1963. The St. Paul office began conversion November 1, 1962, and will be completed by about May 31, 1963. The conversion cleanup operations are scheduled to be completed by October 10, 1963, at Denver, and November 30, 1963, at St. Paul. Reorganization of the two western offices (in line with automatic data processing operations) will be completed in fiscal year 1964 after completion of conversion.

Loans, cash surrenders, and insurance notice of death claims will be primarily processed on computers during 1964. A minor portion of these items will be processed manually.

Insurance awards and actuarial data are planned to be converted to magnetic tape in the budget year.

The estimated budget requirements show reductions in average employment of 11.5 percent in fiscal year 1963 (from fiscal year 1962) and 13.2 percent in fiscal year 1964 (from fiscal year 1963). These man-year savings result from the changeover to automatic data processing, continued improvements in systems and procedures, and increases in employee productivity and workload decreases.

The estimated requirement of $20,091,000 in fiscal year 1964 is $4,991,000 less than the fiscal year 1963 requirement of $25,082,000. Fiscal years 1963 and 1964 cost estimates include, respectively: $627,000 and $1,035,000 for pay increases and $86,000 and $173,000 for postal rate increases under recently enacted legis-

lation (Public Law 87-793). The 1964 estimated costs are considerably lower than the 1963 estimated costs because of: (1) projected personnel reductions and increased productivity in all offices in fiscal year 1964, (2) the conversion of the western offices' insurance accounts to automatic data processing in 1963 at an additional cost of $870,000, and (3) the purchase of automatic data processing equipment in 1963 at a net cost of $2.8 million. The automatic data processing equipment purchase in 1963 includes one large digital computer and one small computer for the Philadelphia offices, one small computer for the Denver office, and a small computer system printer for the St. Paul office. The estimated rental of equipment requirements in 1964 (after conversion of the western offices and the purchase of the automatic data processing equipment) is slightly under $0.6 million compared to about $1.5 million in 1962. The rental decrease of slightly over $0.9 million with increased maintenance of equipment costs of less than $0.1 million gives a net savings in excess of $0.8 million in the budget year.

The actual and estimated average employment and costs for fiscal years 1962, 1963, and 1964 are as follows:

Average employment	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Conversion of western offices accounts to automatic data processing		55		−55
Regular operations	3,439	2,988	2,641	−347
Total employment	3,439	3,043	2,641	−402
Costs:				
Conversion of western offices accounts to automatic data processing		$870,000		−$870,000
Regular operations	$23,458,173	24,212,000	$20,091,000	−4,121,000
Total costs [1]	23,458,173	25,082,000	20,091,000	−4,991,000

[1] Includes requirements for fiscal year 1963 and fiscal year 1964 pay increases and postal rate increases: fiscal year 1963, $627,000 for pay increases and $86,000 for postal rate increases; fiscal year 1964, $1,035,000 for pay increases and $173,000 for postal rate increases (Public Law 87-793).

Comparative summary of requirements by detailed object and subobject of expenditure

	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment:				
Department of Insurance jurisdiction	3,339	2,964	2,562	−402
Plus common services adjustment	100	79	79	
Net average employment	3,439	3,043	2,641	−402
Personnel services and benefits:				
Personnel compensation	$17,896,600	$17,584,000	$15,865,000	−$1,719,000
Personnel benefits	1,385,664	1,297,000	1,176,000	−121,000
Total personal services and benefits	19,282,264	18,881,000	17,041,000	−1,840,000
Public Law 87-793 pay increase		(610,712)	(1,016,405)	(+405,693)
Contractual services and supplies:				
Travel and transportation of persons: employee travel, total	109,477	135,000	102,000	−33,000
Transportation of things:				
Other shipments	10,437	20,000	9,000	−11,000
Shipment of household goods	1,073	5,000	3,000	−2,000
Parcel post reimbursement	8,000	8,000	8,000	
Total transportation of things	19,510	33,000	20,000	−13,000
Rent, communications and utilities:				
Rental of equipment:				
Digital computer	653,220	158,000		−158,000
1401 systems	194,077	88,000	82,000	−6,000
RAMAC	46,551			
Data transmission equipment		54,000	65,000	+11,000
EAM equipment	537,042	545,000	360,000	−185,000
Other	58,470	60,000	55,000	−5,000
Total, rental of equipment	1,489,360	905,000	562,000	−343,000
Communications:				
Telephone, telegraph, etc	45,572	44,000	44,000	
Data transmission lines		51,000	65,000	+14,000
Penalty and nonpenalty mail	630,000	716,000	753,000	+37,000
Total communications	675,572	811,000	862,000	+51,000
Printing and reproduction, total	369,951	371,000	345,000	−26,000
Other services:				
Maintenance 7080		32,000	46,000	+14,000
Maintenance 1401		35,000	41,000	+6,000
Repair of furniture and equipment	23,218	21,000	20,000	−1,000
Alteration, improvement and acquisition of administrative space	4,246	8,000	8,000	
Miscellaneous and other services	33,543	35,000	31,000	−4,000
Total other services	61,007	131,000	146,000	+15,000
Supplies and materials:				
Office supplies	311,770	309,000	304,000	−5,000
Operation and maintenance, supplies and materials	21,161	20,000	20,000	
Newspapers and periodicals	771	1,000	1,000	
Total, supplies and materials	333,702	330,000	325,000	−5,000
Total contractual services and supplies	3,058,579	2,716,000	2,362,000	−354,000
Acquisition of capital assets:				
Equipment:				
Equipment replacements	142,532	187,000	134,000	−53,000
Equipment additions	343,722	2,851,184	100,865	−2,750,319
Total equipment	486,254	3,038,184	234,865	−2,803,319
Total cost, Department of Insurance jurisdiction	22,827,097	24,635,184	19,637,865	−4,997,319
Plus common services adjustment	631,076	446,816	453,135	+6,319
Total net cost	23,458,173	25,082,000	20,091,000	−4,991,000
Public Law 87-793 costs		(713,000)	(1,208,000)	(+495,000)

Comparative summary of costs by function

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Central office	$2,527,807	$2,664,000	$2,690,000	+$26,000
Field operations:				
Executive administration	230,142	251,000	282,000	+31,000
Insurance operations	15,610,314	14,654,000	11,589,000	−3,065,000
Office services	4,458,834	4,418,000	4,717,865	+299,865
DPC		2,648,184	359,000	−2,289,184
Total field jurisdiction	20,299,290	21,971,184	16,947,865	−5,023,319
Total Central office and field	22,827,097	24,635,184	19,637,865	−4,997,319
Plus common services	631,076	446,816	453,135	+6,319
Net cost, Department of Insurance	23,458,173	25,082,000	20,091,000	−4,991,000
Public Law 87-793 costs		(713,000)	(1,208,000)	(+495,000)

Comparative summary of average employment by function

	Fiscal year 1962, actual	Fiscal year 1963, estimate	Fiscal year 1964, estimate	Increase (+) or decrease (−), 1964 over 1963
Central Office:				
Chief insurance director	17	16	15	−1
Evaluation staff	7	9	9	
Underwriting and insurance claims service	22	23	25	+2
Chief actuary	88	83	77	−6
Management services	67	68	64	−4
Personnel service	8	8	8	
Insurance controller	57	54	52	−2
Total Central Office	266	261	250	−11
Field operations:				
Executive administration:				
Office of the manager and assistant manager	28	29	31	+2
Insurance operations:				
Evaluations and Systems Division	62	56		−56
Underwriting and Claims Division	197	188	237	+49
Accounts and Underwriting Division	598	558		−558
Insurance Accounts Division	981	719	1,024	+305
Data Processing Division	333	262	441	+179
Premium Accounts (mechanical) Division	229	252		−252
Disability Insurance Claims Division	40	40		−40
Evaluation staff	9	5	5	
Subtotal, insurance operations	2,449	2,080	1,707	−373
Office services:				
Office Services Division	311	293	256	−37
Controller	194	185	169	−16
Finance Division	15	17	17	
Personnel Division	41	41	35	−6
Management Services Division	35	28	69	+41
Subtotal office services	596	564	546	−18
Data processing center		30	28	−2
Total field jurisdiction	3,073	2,703	2,312	−391
Total Department of Insurance Jurisdiction	3,339	2,964	2,562	−402
Plus common services	100	79	79	
Net average employment	3,439	3,043	2,641	−402

Personal services requirements for all measureable activities, including those under the ADP system, are determined by applying work performance standards to anticipated workloads. The standards have been validated to insure consistency with required quality as well as with 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 staffing consistent with overall requirements in nonmeasurable areas.

See summaries of major workloads on pages 16–18 and 16–20.

Man-year requirements for work volumes which increase are more than offset by reductions in clerical work because of ADP. For example, clerical and mechanical operations in connection with billing, premium posting, dividend payments, renewals, and lapses will be processed by the computer. The processing of many other actions is greatly simplified by the use of the computer.

EMPLOYMENT LEVELS—INSURANCE

Mr. EVINS. In 1962 you had 2,449 employees, in 1963, 2,080, and in 1964 it is estimated to have 1,707, or a decrease of 373 employees in the Insurance Department.

Mr. GLEASON. What page was that on?

Mr. EVINS. 16–17. That is an impressive table.

Mr. GLEASON. We have more than that in the whole Department.

Mr. DRIVER. That is the field operation.

Mr. GLEASON. We have more than 373 that are going to be dropped.

Mr. DRIVER. In those functions, that is all there is.

Mr. GLEASON. I want to be sure it is understood.

Mr. DRIVER. At the beginning it is more.

Mr. GLEASON. Just so the record will be clear, Mr. Evins, I would like to point out that on page 16–3, the total employment will be reduced by 402 in the Department of Insurance.

Mr. EVINS. That is in the record.

Mr. THOMAS. What the Administrator is telling you is he wants it repeated.

Mr. GLEASON. Yes, sir. I would like to have that underlined.

Mr. EVINS. We think you are doing a good job in the Insurance Department.

VETERANS INSURANCE AND INDEMNITIES

Mr. EVINS. Place pages 17–1, 2, and 3 in the record on veterans insurance and indemnities.

(The pages referred to follow:)

DEPARTMENT OF INSURANCE

VETERANS INSURANCE AND INDEMNITIES, $30,200,000

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 1962, 1963, and 1964 is shown in the following tabular statement:

Comparison of program costs

	1962 actual	1963 estimate	1964 estimate
1. Military and naval insurance:			
(a) Payment to U.S. Government life insurance fund	$166,114	$195,000	$195,000
(b) Direct payments to policyholders and beneficiaries	2,890,251	2,720,000	2,590,000
2. National service life insurance:			
(a) Payments to national service life insurance fund	6,885,153	9,725,000	8,555,000
(b) Direct payments to insured and beneficiaries	852,060	845,000	864,000
3. Service-disabled veterans insurance: Payment to service-disabled veterans insurance fund	1,300,000	2,000,000	2,700,000
4. Servicemen's indemnities: Payments to beneficiaries	29,141,207	23,177,310	16,115,724
5. Other expense	17,810		
6. Acquisition of loans and liens, net	47,885	85,000	95,000
7. Less payments effected by income offset	−7,694		
Total program (obligations)	41,292,786	38,747,310	31,114,724
Unobligated balance brought forward	−7,480,231	−6,102,034	−114,724
Change in unappropriated receipts	3,196		
Unobligated balance carried forward	6,102,034	114,724	
Required new obligational authority	39,917,785	32,760,000	31,000,000
APPROPRIATIONS			
Annual definite: Veterans insurance and indemnities	39,200,000	32,000,000	30,200,000
Permanent indefinite: Veterans insurance and indemnities	717,785	760,000	800,000
Total appropriation	39,917,785	32,760,000	31,000,000

The expenditures under military and naval insurance are expected to decrease in excess of $100,000 in fiscal year 1964 over fiscal year 1963.

There will be an increase in the requirements for national service life insurance in 1963 and 1964 over the 1962 expenditures. The estimated transfers for gratuitous death claims are much higher in fiscal years 1963 and 1964 due to recent court decisions resulting in payment of gratuitous insurance to otherwise qualified illegitimate children. There are no firm figures on which to base an estimate of the increased requirements. The costs have been estimated, however, in excess of $5 million. Accordingly $3 million and $2 million, respectively, have been added to the fiscal year 1963 and 1964 normal estimates for transfers on gratuitous insurance.

The servicemen's indemnities running award cases averaged 27,644 for fiscal 1962. The number of award cases are decreasing annually as installment payments are completed. The fiscal year 1963 expenditures are expected to be $23.2 million. The estimated requirements for fiscal year 1964 are $16.1 million.

There is an increase in the number of policies and claims each year in the service-disabled veterans insurance program. Death claims and refunds exceed premium payments each year due to medically substandard insureds. The need will continue for appropriated funds to supplement premium income. The estimated appropriation for fiscal year 1964 is $2.7 million.

Insurance Funds

Mr. Evins. Insert the material in the record pertaining to the various insurance funds.

(The material referred to follows:)

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 49,577 at June 30, 1962 to 55,800 at June 30, 1964.

Fund requirements are completely uncontrollable administratively due to the medically substandard lives insured. Fund payments have exceeded the income, resulting in capital impairment. Restoration thereof 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, present, and budget year follow.

Revenue, expense and retained earnings

	1962 actual	1963 estimate	1964 estimate
Insurance program:			
Revenue	$5,470,999	$5,857,681	$6,228,410
Expense	6,746,577	7,344,788	8,108,909
Net operating income or loss (−) for the year	−1,275,578	−1,487,107	−1,880,499
Net nonoperating income or loss (−)	−3,294,991	−3,619,585	−4,856,000
Net income or loss (−) for the year	−4,570,569	−5,106,692	−6,736,499
Analysis of deficit:			
Deficit (−), beginning of year	−20,929,986	−24,200,555	−27,307,247
Payment from veterans insurance and indemnities	1,300,000	2,000,000	2,700,000
Deficit (−), end of year	−24,200,555	−27,307,247	−31,343,746

Statement of financial condition

	1962 actual	1963 estimate	1964 estimate
Assets:			
Treasury balance	$263,759	$157,749	$287,050
Accounts receivable, net	52,814	65,810	81,000
Policy loans	2,118,233	2,776,203	3,534,304
Policy liens	6,491	8,491	10,400
Total assets	2,441,297	3,008,253	3,912,754
Liabilities:			
Current liabilities	1,046,437	1,100,500	1,185,500
Operating reserves:			
Cash value	17,248,954	20,500,000	25,000,000
Reserve for payments under optional income settlements	3,846,461	4,215,000	4,571,000
Total liabilities	22,141,852	25,815,500	30,756,500
Investment of U.S. Government:			
Appropriation	4,500,000	4,500,000	4,500,000
Deficit	−24,200,555	−27,307,247	−31,343,746
Total Government investment	−19,700,555	−22,807,247	−26,843,746

Status of certain fund balances

	1961 actual	1962 actual	1963 estimate	1964 estimate
Unexpended balance:				
Treasury balance	$974,123	$263,759	$157,749	$287,050
Obligated balance net:				
Current liabilities	1,197,246	1,046,437	1,100,500	1,185,500
Accounts receivable, net (−)	−30,658	−52,814	−65,810	−81,000
Total obligated balance	1,166,588	993,623	1,034,690	1,104,500
Unobligated balance	−192,465	−729,864	−876,941	−817,450

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 1962, 20 settlements (payments to commercial insurance companies under guaranteed policies) were made in the total amount of $20,535; 70 settlements totaling $52,500 are estimated for fiscal year 1963; and 30 settlements totaling $22,500 are estimated for 1964. Repayments are estimated at $3,000 for 1963 and for 1964.

Statements of income and expense, and of financial condition for the past, current, and budget years follow.

Statement of income and expense

	1962 actual	1963 estimate	1964 estimate
Income: Repayments of claims receivable written off	$3,177	$2,000	$2,000
Expenses: Claims receivable written off and refunds	36,328	42,500	15,000
Net income or loss (−) for the year	−33,151	−40,500	−13,000
Analysis of deficit: Deficit (−), beginning of year	−1,847,658	−1,880,809	−1,921,309
Deficit (−), end of year	−1,880,809	−1,921,309	−1,934,309

Statement of financial condition

	1962 actual	1963 estimate	1964 estimate
Assets:			
Treasury balance	$91,111	$39,015	$21,015
Claims receivable	35,826	42,826	47,826
Total assets	126,937	81,841	68,841
Liabilities: Current	4,746	150	150
Government investment—non-interest-bearing capital:			
Start of year (end of year)	2,003,000	2,003,000	2,003,000
Deficit (−)	−1,880,809	−1,921,309	−1,934,309
Total Government investment	122,191	81,691	68,691

Status of certain fund balances

	1961 actual	1962 actual	1963 estimate	1964 estimate
Unexpended balance: Treasury balance	$232,886	$91,111	$39,015	$21,015
Obligated balance, net:				
Current liabilities	129,255	4,746	150	150
Accounts receivable, net (−) and cash in transit				
Unobligated balance	103,631	86,365	38,865	20,865

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 present insurance to a permanent plan or to exchange for the new form of term insurance. Those who converted to a permanent plan also acquired the right to purchase total disability income coverage with an additional premium 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 onetime 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 also be paid 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

	1962 actual	1963 estimate	1964 estimate
Insurance program:			
Revenue:			
Funded	$30,172,940	$32,298,500	$33,055,000
Unfunded	109,651	120,000	130,000
Total revenue	30,282,591	32,418,500	33,185,000
Expense	44,002,839	17,906,800	13,235,319
Net operating income	−13,720,248	14,511,700	19,949,681
Nonoperating expense(−): Increase (−) in operating reserves	−50,362,819	−8,831,493	−11,365,187
Net income for the year	−64,083,067	5,680,207	8,584,494
Analysis of retained earnings:			
Retained earnings, beginning of year	77,378,839	9,075,260	9,715,467
Payment of earnings to Treasury	−4,000,000	−5,000,000	−9,000,000
Unobligated balance transferred to General operating expenses appropriation	−220,512	−40,000	−40,000
Retained earnings end of year	9,075,260	9,715,467	9,259,961

Statement of financial condition

	1962 actual	1963 estimate	1964 estimate
Assets:			
Cash with Treasury	494,349	672,280	539,961
U.S. securities (par value)	87,956,000	96,800,000	107,300,000
Accounts receivable (net)	125,082	127,000	141,000
Policy loans	909,453	1,600,000	2,300,000
Policy liens	8,550	15,000	15,000
Total assets	89,493,434	99,214,280	110,295,961
Liabilities:			
Current liabilities	8,234,854	8,484,000	8,656,000
Operating reserves:			
Policy reserves	41,808,270	59,700,000	79,180,000
Premium waiver disability	4,325,680	4,600,000	5,000,000
Disability income reserve	1,535,018	2,100,000	3,000,000
Reserve for future intallments on matured contracts	4,799,539	4,900,000	5,200,000
Reserve for special dividend	19,714,813	9,714,813	----------
Total liabilities	80,418,174	89,498,813	101,036,000
Investment of U.S. Government retained earnings (reserved for contingencies)	9,075,260	9,715,467	9,259,961
Total liabilities and investment	89,493,434	99,214,280	110,295,961

Status of certain fund balances

	1961 actual	1962 actual	1963 estimate	1964 estimate
Unexpended balance: Treasury balance and U.S. securities	$106,465,834	$88,450,349	$97,472,280	$107,839,961
Obligated balance:				
Current liabilities	7,623,566	8,234,854	8,484,000	8,656,000
Accounts receivable (−)	−6,751	−125,082	−127,000	−141,000
Total obligated balance	7,616,815	8,109,772	8,357,000	8,515,000
Unobligated balance	98,849,019	80,340,577	89,115,280	99,324,961

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. Of these, 5 million, totaling $33 billion, remain in force. In 1951 the fund was closed to new issues.

Fund assets total $6,240 million as of June 30, 1962. These consist almost entirely of interest-bearing U.S. securities and policy loans. Policy obligations of $5,721 million and current liabilities of $319 million, total $6,040 million in liabilities. Earnings of $200 million are retained as a reserve for contingencies; $90 million of this is being applied to a special dividend in 1963. An estimated income excess over payments will increase the fund assets to $6,420 million as of June 30, 1964.

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.

Statement of financial condition

	1962 actual	1963 estimate	1964 estimate
ASSETS			
Treasury balance	$7,122,433	$6,923,191	$6,788,191
U.S. securities (par value)	5,803,529,000	5,693,000,000	5,885,000,000
Accounts receivable, net	10,399,822	11,600,000	12,625,000
Policy loans	418,162,684	465,000,000	515,000,000
Policy liens	545,688	525,000	500,000
Total assets	6,239,759,627	6,177,048,191	6,419,913,191
LIABILITIES			
Current	319,483,822	339,902,000	349,702,000
Operating reserves:			
Policy reserves	3,177,877,543	3,414,492,000	3,690,534,000
Premium waiver and disability reserves	141,876,527	142,345,000	142,600,000
Reserves for future instalments on matured contracts	2,151,490,448	2,025,000,000	1,875,000,000
Total disability income reserves	24,509,279	34,104,000	45,872,000
Reserve for dividends declared	225,000,000	115,000,000	212,000,000
Total liabilities	6,040,237,619	6,070,843,000	6,315,708,000
Investment of U.S. Government:			
Retained earnings (reserve for contingencies)	199,522,008	106,205,191	104,205,191
Total liabilities and investments	6,239,759,627	6,177,048,191	6,419,913,191

U. S. GOVERNMENT LIFE INSURANCE FUND

This trust fund was established in 1919 to record financial data pertaining to converted insurance issued under the War Risk Insurance Act of September 2, 1914, as amended. The fund was closed to new issues in April 1951. Of the approximate 1,150,000 USGLI policies issued, 291,200 remain in force at June 30, 1962.

Fund assets of $1,137 million as of June 30, 1962, primarily represent investment in interest-bearing securities and policy loans. Actuarially computed policy obligations of $1,076 million and current liabilities of $24 million total $1,100 million. Earnings of $36 million are retained as a reserve for contingencies. A $43-million decrease in assets by June 30, 1964, is estimated due to an anticipated increase in policy maturements.

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, for claims (*a*) resulting from the extra hazards of the insured veteran's service, and (*b*) arising on policies held by personnel on active military duty.

The fund is operated on a commercial basis 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.

Statement of financial condition

	1962 actual	1963 estimate	1964 estimate
ASSETS			
Treasury balance	$4,313,859	$5,871,000	$4,714,000
U.S. securities (par value)	1,027,809,000	1,002,200,000	993,400,000
Accounts receivable, net	2,188,258	2,129,000	2,028,000
Policy loans	102,294,525	98,300,000	94,300,000
Policy liens	49,038	50,000	55,000
Total assets	1,136,654,680	1,108,550,000	1,094,497,000
LIABILITIES			
Current	24,527,605	24,603,240	24,703,240
Operating reserves:			
Policy reserves	829,113,332	809,750,000	788,097,000
Reserves for future installments on matured contracts	216,095,337	219,100,000	223,900,000
Reserve for total disability income	14,864,949	14,700,000	14,300,000
Reserve for dividends	15,700,000	7,800,000	14,700,000
Total liabilities	1,100,301,223	1,075,953,240	1,065,700,240
Investment of U.S. Government:			
Retained earnings (reserve for contingencies)	36,353,457	32,596,760	28,796,760
Total liabilities and investments	1,136,654,680	1,108,550,000	1,094,497,000

Mr. EVINS. That is all, gentlemen.

Mr. THOMAS. Are there any questions?

(No response.)

Gentlemen, we will do our best to complete the veterans medical program and the construction program tomorrow. We want to thank all of you for being so very helpful to us. We will meet in the morning at 10.

THURSDAY, FEBRUARY 7, 1963.

DEPARTMENT OF MEDICINE AND SURGERY

Mr. THOMAS. Gentlemen, will the committee please come to order.

We have with us this morning our very able, distinguished, genial friend, Dr. Middleton. He will tell us about his medical program, and then we will go into the construction program later.

Doctor, we are delighted to have you.

GENERAL STATEMENT

Dr. MIDDLETON. Mr. Chairman and gentlemen, thank you for the opportunity to discuss with you the changes in financial needs affecting Veterans' Administration medical programs. The estimate which you now are considering requests appropriation of $1,136,412,000 in the 1964 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, 95.7 percent, or $1,087,688,000 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.

Less than 3 percent of the total, or $33,742,000 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.

Slightly more than 1.3 percent of the total, or $14,982,000 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 request provides an increase of $42,153,000 over our current estimate of fiscal year 1963 needs. Of the $42,153,000 increase, $35,814,000, or 85 percent, will be required for continuance of operations at fiscal year 1963 levels. This sum of $35,814,000 will merely meet the costs of the additional 2 paid workdays and 1 calendar day occurring in fiscal year 1964, the higher salary and postal rates authorized by Public Law 87-793, and within grade salary increases. Only $6,339,000, or 15 percent of the total increase, relates to workload or other program changes, including the planned activation of new medical facilities.

Mr. THOMAS. That is a significant figure.

Dr. MIDDLETON. The Administrator has summarized most ably the needs for increased medical program appropriations in fiscal year 1964. These needs are presented in extensive detail in the narrative justifications now before you. Therefore, I shall confine my remarks to items of the medical requirements which are believed to be of special significance to this committee. The highlights of planned changes in the scope and cost of individual medical programs are as follows:

MEDICAL CARE

Appropriation requirements of $1,087,688,000, plus $5,200,000 estimated reimbursements, are forecast for the medical care programs in fiscal year 1964. This sum consists of $100,149,000 for outpatient activities, including hometown care—actually, some 37,000 physicians

in this country participating in this hometown program and that is added to by 2,000 of our friends in the other fields.

Mr. THOMAS. I notice your fees went up.

Dr. MIDDLETON. Yes, sir. Osteopaths, 2,000, and then 37,000 regular physicians.

For transfer to the General Services Administration for space rentals, $24,000; and $992,715,000 for inpatient activities. The latter item, in addition to providing for requirements of Veterans' Administration hospitals and domiciliaries, includes reimbursable payments to civil, municipal, State, and other Federal contract hospitals and State homes.

The estimate provides an increase of $38,323,000 over presently anticipated fiscal year 1963 net operating costs. The increased costs of the medical care programs are comprised broadly of (*a*) $7.1 million for the additional 2 paid workdays and 1 calendar day occurring in fiscal year 1964; (*b*) $27 million for Public Law 87-793 and within grade salary increases, and (*c*) $4.2 million for equipping and activating new medical facilities. There are a number of other program requirements detailed in the estimate involving Bureau of Employees Compensation payments, increased usage of utilities, drugs, and equipment, and changes in contract hospitalization and medical and dental fee rates which produce increased appropriation requirements of $9,000 net, after considering changes in anticipated reimbursement collections and wage board adjustments.

The outpatient workloads for fiscal year 1964 contemplate 3,728,000 medical visits and completion of 39,300 dental examination and 31,750 dental treatment cases. The average daily beneficiary load to be furnished care and treatment on an inpatient basis is estimated at 139,055, comprised of 111,025 in Veterans' Administration hospitals; 16,111 in Veterans' Administration domiciliaries; 2,819 in contract hospitals; and 9,100 in State soldiers' homes.

During the 1964 fiscal year, the agency will occupy new hospital facilities at Cleveland, Ohio; Martinez, Calif., and Washington, D.C., in addition to completing the activation of the new 1,000 bed neuropsychiatric hospital at Brecksville, Ohio. Test of the Restoration Center program will be expanded to include a new 200 bed facility at East Orange, N.J. In this program, special restorative training will be afforded certain beneficiaries who 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.

For the outpatient program, activation of a new audiology clinic at the Veterans' Administration hospital, Oklahoma City, Okla., is scheduled for fiscal year 1964. Five additional psychiatric day care centers also planned for activation in fiscal year 1964 will be located at the VA Center, San Juan, P.R., VA Center, Des Moines, Iowa; VA hospital, Palo Alto, Calif.; VA hospital, Waco, Tex., and the VA regional office, Louisville, Ky. Consolidation of outpatient clinics into hospital settings also are planned at Syracuse, N.Y.; Cleveland, Ohio, and Washington, D.C. This will provide a broader range of medical services to the service-connected outpatients served by these clinics.

The prebed and postbed care programs authorized under Public Law 86–639, together with improvements in hospital staffing, made possible substantial increases in the numbers of patients admitted, treated, and discharged at VA hospitals in fiscal year 1962. There were over 24,000 more patients treated in agency hospitals that year than in 1961. We predict that the number of patients treated will continue to increase by about 10,000 in each of the fiscal years 1963 and 1964. This is particularly significant since with the aging population the proportion of veteran patients requiring treatment for long-term illnesses and disabilities continues to grow.

After providing for the continuance of basic fiscal year 1963 operating levels at existing medical facilities, virtually all of the additional average employment and funds provided in the 1964 fiscal year estimate must be committed to activate the newly constructed facilities that I have mentioned. The fiscal year 1964 medical care appropriation estimate, in my opinion, represents the most conservative allowance with which agency medical facilities can be operated. We are mindful of the tremendous drain that defense and space requirements and new pay legislation have placed on the national resources. Our fiscal year 1964 estimate recognizes this situation, and provides only for minimal additional treatment staff. I mention this only to emphasize to the committee that requirements will increase in future years if VA medicine is to keep pace with worldwide developments and America's veterans are to receive the treatment to which they are entitled.

MEDICAL AND PROSTHETICS RESEARCH

For fiscal year 1964, the request under the "Medical and prosthetic research" appropriation head totals $33,742,000, comprised of $32,467,000 for medical research and $1,275,000 for "Prosthetic testing and development." In addition, the construction of hospital and domiciliary facilities estimate for fiscal year 1964 includes $3 million for construction of research facilities, not otherwise provided in complete hospital replacement or modernization projects.

The $32,467,000 requested for medical research activities in fiscal year 1964 provides an increase of $2,967,000 more than appropriated for this program in the current year. Of this increase, $1,015,000 will be required to continue operations at fiscal year 1963 levels at the higher salary rates provided by Public Law 87–793 and to pay salaries for the two additional paid workdays. The $1,952,000 remainder of the increase will provide 176 additional employees to undertake new research studies and provide for initial equipment in new research space made available as part of the agency's construction effort.

Mr. THOMAS. Why did you include a construction item here rather than in the construction program for the enlargement of the research facilities?

Mr. MONK. The equipment is in here.

Mr. THOMAS. Construction money is in here too, is it not?

Mr. MONK. It is just for minor alterations. The major construction cost for research is in hospital and domiciliary facilities.

Mr. THOMAS. It is just $3.2 million.

Dr. MIDDLETON. That was authorized last year.

Mr. GLEASON. Mr. Chairman, at least I am under the impression that the Congress gave us permission to include our research costs under this heading.

Mr. THOMAS. I don't recall it.

Dr. MIDDLETON. We were instructed to keep research construction as a separate item.

Mr. THOMAS. Go ahead.

Dr. MIDDLETON. Since enactment of Public Law 729 by the 80th Congress in June 1948, the appropriation for prosthetic research has remained at $1 million each year. Costs of all types have increased markedly since that time, including percentages of overhead charged by contractors. During this period, many research functions formerly supported from other appropriations have been transferred to the prosthetic research program, and costs of new employee fringe benefits have been absorbed within available funds. Thus the scope of work that could be accomplished within the VA prosthetic research program has dwindled steadily.

Approval on August 2, 1962, of Public Law 87–572 removed the annual appropriation authorization of $1 million for prosthetic research. Appropriation of funds for prosthetic research is now authorized as necessary to carry out the program.

Accordingly, an appropriation increase of $275,000 is reflected in this estimate, to provide for total prosthetic research expenditures of $1,275,000 in the 1964 fiscal year. This increase, extremely modest compared to the extent of inflation in research costs, is essential for the Veterans' Administration to continue its major role in this field. The increase specifically is required for average salary increases resulting from Public Law 87–793 and within grade salary advances; increased activity in clinical studies on major devices; intensified studies of aids for the blind; new developments in bracing; further correlation of physical tests of hearing aids with clinical value; and generally, to bring about greater consistency between the level of prosthetic research conducted within the agency and the needs of disabled veteran beneficiaries.

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

Appropriation of $14,982,000 under the "Medical administration and miscellaneous operating expenses" appropriation head is requested for fiscal year 1964, consisting of $11,528,000 for Medical Administration; $1,829,000 for the Office of the Assistant Administrator for Construction; and $1,625,000 for a program of education and training to support the medical care programs. This provides an increase of $989,000 over anticipated current year obligations.

The increase is comprised of $82,000 required for the additional two paid workdays occurring in the 1964 fiscal year; $596,000 for Public Law 87–793 and within grade salary increases; and a net increase of $311,000 for specific program changes.

For Medical Administration in fiscal year 1964, an increase of 38 average employment is requested, of which 23 will be required to carry for a full year the 922 employees expected to be on duty in Central Office (617) and area medical offices (305) at the close of the 1963 fiscal year. These are the staffing levels approved by the Independent Offices Appropriation Act for fiscal year 1963. The 15 addi-

tional average employment representing the remainder of the increase is to undertake a study of potentials for outplacement of increased numbers of eligible beneficiaries in nursing homes. The agency proposes to undertake this study at the request of the chairman, Veterans' Affairs Committee, House of Representatives, as endorsed by the Bureau of the Budget.

For education and training activities, a decrease of $125,000 from $1,750,000 in fiscal year 1963 to $1,625,000 in fiscal year 1964 is projected. This is the net result of transferring $225,000 to the medical care appropriation for financing costs of medical illustration laboratories and providing a $100,000 increase for basic education and training activities. The type of staff needed in Veterans' Administration hospitals and clinics can be recruited and retained only if the opportunity for continuing education is made possible. The experience of the agency over the last decade and a half has demonstrated that medical education and training afford the most direct route to improved patient care.

Thank you very much.

Mr. THOMAS. A very nice statement. A very concise statement, and is to the point.

DEVELOPMENT OF MEDICAL RESEARCH PROGRAMS

How long has your research program been in effect?

Dr. MIDDLETON. The year 1946 was the first allotment of funds for this purpose but it was not in a separate sum and was directed toward followup studies.

Mr. THOMAS. Between 6 and 7 years.

Dr. MIDDLETON. Actually, the first moneys applied go back to about 1953.

Mr. THOMAS. The program has certainly grown and I recall vividly the reason for getting in the research business was we took the old original act and put a magnifying glass on it and I think somewhere it mentioned the word "research" once.

I remember the basis for getting into the research field was two very big outstanding things. One, you had the patients. You had a captive audience. The patients were there. Two, you had the records. Of things not needed in research, one is records and the other is patients.

What you really need is biochemists, physicists, chemists, molecular biologists.

What became of this original argument that you had the captive patients there and the records?

I go into a good many research institutions and they even have engineers.

I know of one of the outstanding cancer research institutions of the world, the Children's Hospital of Boston, headed by the eminent cancer research specialist, Dr. Farber. I think out of his very excellent and high-powered staff he has 12, 15, or 18 doctors and maybe 8 or 10 physicists, 8 or 10 engineers, and the rest of them are molecular biologists, biochemists and organic chemists.

Dr. MIDDLETON. Mr. Chairman, your case is well stated. As a matter of fact, the contribution that has come out of the Children's

Hospital, however, has been in the treatment of leukemia in children and the doctor's claim to fame is entirely in that area.

Mr. THOMAS. I want to be the first to say the two best advocates of your program are Dr. Debohke and Dr. Farber.

Dr. MIDDLETON. The international program gave six prizes to the men who made the greatest contributions in the field of cancer research and one was to Dr. Ludwik Gross, of the Bronx Veterans' Administration Hospital, for his work on the isolation of a virus in mouse leukemia.

PREVIOUS OBLIGATIONS FOR RESEARCH

Mr. THOMAS. I wonder how much money you have spent since the installation of this program for laboratory equipment used in research work which has never been set out as a separate item in the budget and how much is spent in the way of construction that hasn't been set out as a separate item for laboratories at the various hospitals. Now, you have set out four or five items this year for the first time.

Mr. BAKER. We would be glad to supply that for the record.

Mr. THOMAS. What is the amount of money involved (1) for construction and (2) for equipment.

Mr. BAKER. So often the construction is intermingled with the construction of other hospital facilities. From 1957 to 1962 we obligated $23,212,000 from the "research and construction" appropriations for projects, including initial equipment, specifically related to research. This does not include costs for research facilities provided as a part of a major modernization or replacement project.

Mr. THOMAS. Most of it has been alteration of existing space, but I gather from this year's justification there will be some additional space. You have 20,000 square feet at New York Hospital at a cost which is a little bit on the high side, and one or two others of about 19,000 square feet and two more at 18,000 square feet.

Dr. MIDDLETON. I direct your attention to the fact that about 85 percent of all the research that is done under the Veterans' Administration is responsive to the diagnostic load. In other words, we are driving hard in many areas as we drive against tuberculosis.

NEUROPSYCHIATRIC RESEARCH

Mr. THOMAS. One of your biggest items of patient load is neuropsychiatric cases. You have the patients right there. What is wrong with that field? We don't know of any field that is further behind in this basic research than mental diseases.

Dr. MIDDLETON. There are 21 added personnel out of our total group to go into that program this next year, and it is supported in the proposed budget to the extent of $3.4 million.

Mr. THOMAS. But the least effort in the Veterans' Administration research program has been applied to neuropsychiatric cases. How about your diagnostic treatment?

Dr. MIDDLETON. Last year you will recall I reported to the committee that we were confronted with the difficulty of recruitment and the difficulty of enlisting interest in this field. That we actually had made very concrete efforts to recruit.

Mr. THOMAS. I remember that distinctly, but I still go back to 7 years ago and the basic argument for getting into the field of research was that you had these patients right there.

Dr. MIDDLETON. We have at the present time four clinical investigators and we have one senior medical investigator in this field. We are training other men to come into the research area but it has not been a favored one among clinicians and research men in general for study. I think because of the difficulties concerned in certain of the problems.

Mr. THOMAS. You are going to have to go back to the field of molecular biology, biochemistry, and the patient being right there doesn't add much in the way of research, does it?

Dr. MIDDLETON. It is very hard to determine mental illness in guinea pigs and hamsters, and I think we have in this study——

Mr. THOMAS. Wait a minute. I didn't quite get the connection between guinea pigs and patients.

Dr. MIDDLETON. These were the instruments of Dr. Farber in Childrens' Hospital in cancer, but in mental disease it is hard to draw an analogy between the lower mammals and the human being so far as research is concerned.

The neuropsychiatric research of which you speak in getting into the molecular area—at the Veterans' Administration hospital in Pittsburgh there is a very important study in this area and then in Sepulveda, Calif., so that we have two laboratories working entirely in this area in the field of psychotherapeutics which has to do with the basic or fundamental disturbances in biochemistry.

INCREASING COST OF HOSPITAL CARE

Mr. THOMAS. What can be done, if anything, about the cost of hospital care? In the last 5 years your medical program has gone up—I am using round figures—about $400 million. For this coming year it is up to $1.1 billion—again round figures. In all that time you have had a limitation of 125,000 beds and at no time has the ADPL been more than 111,000. As a matter of fact you only have 122,000 beds that are available.

What is the answer to it? In round figures you are up to $30 a day now, per bed cost. Five years ago it was around, in your most expensive beds, around $21.50 or $22. That didn't include tuberculosis or mental disease.

I notice in this year's budget you combine tuberculosis under the classification "General."

Dr. MIDDLETON. The picture, as you know, is not peculiar to the Veterans' Administration, Mr. Chairman.

The Army for its general hospitals—we are in Federal general hospitals now—1960, $25.68. And in 1962 fiscal year it was $29.21. The Veterans' Administration in 1960 was $23.97 and this past year $27.08. As you have stated, our costs have gone up and gone up rather generally. They reflect, of course, the increased cost of medical care——

Mr. THOMAS. Your cost and the costs of the armed services are in comparable range. Yours are a little higher and we will not quibble too much about that.

Mr. GLEASON. Ours are lower.

Dr. MIDDLETON. Ours are lower in each case except the Navy.

Mr. THOMAS. What is the general answer to this problem? Is there one?

Dr. MIDDLETON. Presently, of course, the demands have gone up throughout the medical care field. It is not peculiar to the Government. As you know, in voluntary hospitals and municipal State hospitals the costs are going up.

Mr. THOMAS. Is there any answer to this spiral in cost, regardless of whose hospital it is?

Dr. MIDDLETON. Presently they have not found the limitation. We are attempting to contain the costs within our own resources.

Mr. THOMAS. I notice under your research program one of your distinguished investigators came up and was going to take temperatures and blood pressure 30 at a time. I don't want any part of that. He can just keep that saving.

Dr. MIDDLETON. That could be a source of saving. I am speaking from a monetary standpoint.

Mr. THOMAS. Who wants that type of saving?

Has anybody any ideas on it, what the answer is? Is the cost going to keep on going up for the next 10 years, is it going to increase another 50 percent?

Mr. WISE. Mr. Chairman, I believe that relates largely to salary costs. In our hospital system well over 80 percent of our total cost is for salaries. For example in our wage board program since 1955, the date you mentioned, salary costs have risen by about a 35-percent increase. This has held true in the classified and other services as well, and it is certainly common to the medical industry as a whole.

Mr. THOMAS. Of course all of your cost is broken down into two main classifications, "Salaries expenses" and then "Other objects." You are not in the position of making loans or anything else and it is purely operating costs.

PATIENT LOADS

What about your patient load? What is your picture as far as patient load is concerned? You alluded to that two or three times in your statement.

Mr. BAKER. In our own hospitals, Mr. Chairman, in the current year we expect to have about 111,300 average daily patients and next year it will be 111,025, I believe.

In contract hospitalization there will be about 2,900 in 1963 and 2,819 in the 1964 fiscal year; domiciliaries, around 16,500 in 1963 and 16,111 in 1964 in that general area; and State homes, around 9,100. We expect the load to remain fairly stable throughout this year and next with some slight falling off in our own hospitals.

In the meantime, however, we have been taking care of a greater number of patients passing through the system. Our increase in 1962 over 1961 is 24,000 greater than the year before and we expect about 10,000——

OUTPATIENT CARE COSTS

Mr. THOMAS. I know you set that out in tables, but the more I studied the tables the more confused I became.

The outpatient cost is going up, the outpatient clinic cost. How many clinics do you have?

Mr. BAKER. Ninety-three.

Mr. THOMAS. What about your consolidation program? Are you going to consolidate four of your big ones?

Mr. BAKER. Yes, sir.

Mr. THOMAS. We anticipated better service, better medicine, and reduction in cost. What happened to those points?

Dr. MIDDLETON. We realize the first, but on the question of cost obviously we are getting better service because we are able to utilize the facilities of the hospital, the laboratories and X-ray, but then there is increased staffing to take care of the increased load so the personnel factor that has been brought in has obviously outweighed the saving through the better utilization of facilities.

Mr. THOMAS. So practically, then, the consolidation instead of saving money has cost money?

Dr. MIDDLETON. They would have the costs outside and they would have the facilities duplicated as far as physical cost is concerned.

Mr. THOMAS. Well, the overall bill has gone up so it shows that the consolidation cost money rather than saved money, any way you look at it.

Mr. BAKER. It is not directly due to the consolidation, Mr. Chairman. It is due to other factors. The cost has gone up and would have gone up regardless of the consolidation. The salary increases would have applied regardless of that factor. Likewise, the usage of drugs and medicines increases regardless of whether the clinic is consolidated with a hospital or not. It is hard to make a direct comparison there, one versus the other.

Mr. WISE. We have found an average of $50,000 a year savings in the administrative cost where these consolidations take place, but because of the obvious spiraling cost of drugs and additional medical services available in the hospital setting, they certainly don't diminish the direct medical care cost, but we gain much in quality.

Mr. THOMAS. Mr. Administrator, I see you and the doctor removed from the field the seven area offices to the District of Columbia. I think that is good but you just made one mistake. You should have put them back in the hospitals and not here in Washington. Then wrap up your medical area offices and get rid of them.

REMOVAL OF TRAVEL LIMITATION

I noticed in the justification—I am going to read it in the record at the proper point—and it was a very strong statement on travel—to take the limitation off of travel. They pointed out when they need a few dollars for travel at X hospital before X hospital could get it he had to spend more money on a long-distance call to the area office for the permission, and then maybe the area office would in turn come to Washington.

I thought it was a very cogent reason why, if a hospital manager didn't know how to spend a few dollars for travel, that he certaintly ought not to be running the hospital. That is just one little item that struck me rather forcefully when I was reading it.

DELEGATION OF AUTHORITY TO HOSPITAL MANAGERS

We will get into your area medical officers. You have quite a large personnel load there. It appears to me that saving would be of at least a half of the cost of it could be made, at least a half of it, by giving to your local hospital managers under certain guidelines and limitations, authority to run their hospital on a day-to-day basis. How in the world can one man tell another one how to run his hospital sitting up here in Washington or sitting in some other place from 300 to 500 miles from the hospital? The hospital manager has to know how to run his hospital with the amount of money that you give him. If he can't, the thing to do is to get rid of the hospital manager and get another one. There is no shortage of hospital managers.

Well, gentlemen, are there any general questions? If not we will take a look at the specific items.

DIFFERENCE BETWEEN NUMBER OF BEDS AND DAILY PATIENT LOAD

Mr. GLEASON. Mr. Chairman, may I have a moment to go back over a subject that you touched on?

Mr. THOMAS. Mr. Administrator, you may take all the time you want.

Mr. GLEASON. Thank you, sir.

I would like to point out, as the chairman has mentioned, we have a 125,000-bed ceiling but at no time have we utilized more than approximately 122,000 beds. Now, I am sure that the chairman and the members of the committee realize that this unused portion between 122,000 and 125,000 is set aside for the construction and operation of new hospitals as they come into the program, and as far as an average daily patient load of 111,000 is concerned, this is approximately 90-percent occupancy, which is a much higher rate than the occupancy, Mr. Chairman, in civilian hospitals.

One of the reasons why there is this difference between 111,000 and 122,000 also is because of renovations and improvements at hospitals, as well as the fact that we are now forced to operate, and continue to operate, hospitals in various sections of the country where they are no longer economically needed—either for the veteran patient, or for our own system. Because as there have been population changes made throughout the United States, as the Congress knows——

Mr. THOMAS. Why do they do that?

Mr. GLEASON. There may be a hospital in a certain location that may have 400 or 500 beds where there are no waiting lists and relatively low demand.

Mr. THOMAS. How many of those do we have?

Mr. GLEASON. Approximately 11 of them.

Mr. THOMAS. Where are they located?

Mr. GLEASON. I cannot give them offhand, but I can supply them.

Mr. THOMAS. Maybe Mr. Wise can.

Mr. GLEASON. If I could give them to you off the record, I would appreciate it, Mr. Chairman.

Mr. THOMAS. All right.

(Discussion off the record.)

Mr. OSTERTAG. You point out, Mr. Administrator, that you have 111,000 beds occupied.

Mr. GLEASON. This is the average daily patient load.

Mr. OSTERTAG. You do have 122,000 beds operational today?

Mr. GLEASON. Yes, sir; usable.

Mr. OSTERTAG. That is the difference, they are operational but not occupied.

Mr. GLEASON. That is right. Only slightly over 90 percent are occupied.

Mr. OSTERTAG. Which is a good ratio, is it not, from the standpoint of the load as compared to the operation because that is only a 10-percent leeway.

Mr. GLEASON. That is right. This is much higher than civilian hospitals have. My point is that in view of the fact that we are limited to 125,000 beds, if we could relocate some of these beds that are not being used to places where they are really needed we could cut down on our waiting list.

NUMBER OF DOMICILIARY BEDS IN USE

Mr. OSTERTAG. There is a relationship between domiciliary facilities and hospital facilities, is there not?

I do not mean to go into this whole question of domiciliary care but I was wondering about the information that seems to be at hand as to the total domiciliary facilities available for this type of care. I believe you have about 18,000 beds for this purpose.

Mr. GLEASON. Approximately; 16,500 in use, with an authorized ceiling of about 18,000. It is in that area.

Mr. OSTERTAG. Is it fair to state that your requirements are diminishing to a certain extent?

Mr. GLEASON. Yes, sir. We have approximately maybe 15,000 to 16,000 in our domiciliaries at this time.

Mr. OSTERTAG. In other words, you have upward of from 1,500 to 2,000 more domiciliary beds than you currently require?

Mr. GLEASON. That is right.

CONVERTING DOMICILIARY BEDS TO HOSPITAL USE

Mr. OSTERTAG. What about the conversion? Is it not possible to convert them into hospital beds?

Mr. GLEASON. No, sir.

Mr. MONK. They are not in the 125,000 hospital bed ceiling.

Mr. GLEASON. This is in addition to the 125,000 limitation.

Mr. OSTERTAG. Your authorization?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. I am talking about utilization rather than authorization.

Mr. GLEASON. Of course, although most of our domiciliaries are located in close proximity to hospitals; 15 are located at hospital sites. This still is not going to help us a great deal, Mr. Ostertag, I believe.

Mr. OSTERTAG. It would enlarge your capacity at those particular sites; would it not?

Mr. GLEASON. No. We cannot convert domiciliary beds without considerable expense.

Mr. DRIVER. We have done that in Florida. Where the demand is high we have converted them.

Mr. GLEASON. In Florida at Bay Pines we took away domiciliary beds, moved the members to other domiciliary homes and converted those beds to hospital beds, but this came out of our unused portion between the 122,000 and 125,000.

Dr. MIDDLETON. The extent of that action was 250 domiciliary beds were changed to 160 hospital beds.

Mr. THOMAS. At Bay Pines?

Dr. MIDDLETON. Yes, sir.

Mr. OSTERTAG. I visited Bay Pines a month ago. I inspected that conversion and I am of the opinion that it is working out very nicely from that standpoint.

Mr. GLEASON. Because we need them there, Mr. Ostertag, at least until we can get the new Miami Hospital and the Gainesville Hospital erected. When we do that, we may have a different picture.

MODERNIZATION OF BAY PINES HOSPITAL

Mr. OSTERTAG. How about the modernization of Bay Pines?

Mr. GLEASON. As we discussed that the other day with Mr. Jonas, I would like to just refer back to the record on the first day and repeat that if I were positive that a medical school was not going to be located in the Tampa-St. Petersburg area, I think we would then go ahead with Bay Pines. But not knowing this I prefer to wait. From our conversation with Mr. Jonas on the first day, there seems to be some question as to the future with respect to a new medical school in central Florida.

Mr. OSTERTAG. I read a recent news report of the action taken by the State board which indicates that the board did determine in effect that no consideration would be given to a medical school in that region. May I quote from the St. Petersburg Times of January 19, 1963, which reads in part as follows:

> The State board of control yesterday agreed to concentrate on building up the medical school at the University of Florida before giving thought to establishing a second State-owned medical college.
>
> It voted to postpone consideration of a proposal that planning be started toward opening a medical school at the University of South Florida in 1972.
>
> The board acted after University of South Florida president, Dr. John Allen, made a pitch to have a dental college established at the Tampa school. Allen said he thought a second State medical school will be needed and that it should be located at South Florida. The dental college could be established in connection with this new facility, he said.

Mr. GLEASON. This, I think, is an accurate statement that you have made. However, some people have told me that they are sure that the decision of the State board of education applied to the present and that there may well be a difference of opinion and a change as to the future. If this occurs, naturally we would like to be located near the medical school wherever it is.

Mr. JONAS. What is the investment at Bay Pines? What is that hospital worth, including the grounds?

Mr. GLEASON. I would not know. Of course, the grounds, Mr. Jonas, from a real estate viewpoint, are probably worth, I don't know, $20 to $30 million. This is one of the most beautiful sites you would ever find in the United States.

Mr. JONAS. We hear much about environmental therapy. Isn't that good for veterans?

Mr. GLEASON. That is why veterans in our domiciliary program go down to Florida for the winter months.

Mr. OSTERTAG. What I am unable to understand and you may have the answer. In connection with this whole domiciliary picture, you have a situation at Bay Pines where you have found it possible to convert domiciliary facilities into hospital facilities.

Mr. GLEASON. But the beds, if I might interrupt, are hospital beds that come out of our 125,000 ceiling.

Mr. OSTERTAG. But you have reduced the total number of domiciliary beds at Bay Pines.

Mr. GLEASON. That is correct.

Mr. OSTERTAG. What I cannot understand is why there is not a greater demand and need for domiciliary beds in Bay Pines by virtue of the climate and other factors such as increased veteran population in that area of the country.

I do not understand the reason for the decline.

Mr. GLEASON. This would necessitate a construction, Mr. Ostertag, which is what we are trying to avoid, until such time as we find out what the program for Bay Pines will be.

Mr. DRIVER. We had to shift domiciliary members north of Bay Pines to give priority to hospital care.

Mr. OSTERTAG. Then there is a need or demand for domiciliary care that you are not providing at Bay Pines?

Mr. GLEASON. At Bay Pines, yes, sir.

Mr. OSTERTAG. I thought this conversion was brought about by virtue of the decline in demand.

Mr. GLEASON. No, sir, not at Bay Pines. Out of the 18,000 beds we are authorized for domiciliary care, only approximately 15,000 to 16,000 are being used throughout the entire country.

Mr. OSTERTAG. Then that is all the more reason why we should move ahead with this program to bring about the completion of this facility.

RESTORATION CENTER PROGRAM

Mr. GLEASON. It is all the more reason, Mr. Ostertag, why our restoration center program should go forward. We actually believe, and the doctor can correct me if I am wrong on this, that if this restoration program which the Department of Medicine and Surgery has begun on an experimental basis at Hines, Ill., and now at East Orange, N.J., works successfully we can cut the domiciliary program almost in half, or less than in half.

Mr. JONAS. Can you operate that program cheaper than the hospital program?

Mr. GLEASON. We can operate it much cheaper than the hospital program but not as cheap as the domiciliary, Mr. Jonas, because this

is going to be more or less of a rehabilitation program for people out of the hospitals as well as out of the domiciliary program.

Mr. OSTERTAG. If I understand correctly, you now have a restoration center at Hines?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. And too, you have the East Orange facility?

Mr. GLEASON. We will have, sir, on June 30.

Mr. OSTERTAG. Which will be open this year?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. But that is the end of your program so far as planning is concerned.

Mr. GLEASON. Not as far as planning, Mr. Ostertag. I just do not want to go any further in the restoration program until we have more experience. We have plans for approximately 42 restoration centers but I do not want to go ahead with any more at this particular time, other than Hines, outside Chicago and East Orange, which is just across from New York City, until we get the facts as they present them, the facts as they are presented to us from these 2 pilot projects. Maybe we won't get the results that we anticipate. I just don't want to spend any more money on it until we prove the point.

This to me is somewhat like a research project that the Department of Medicine has.

Mr. OSTERTAG. I understood you were pioneering in this field, that this was purely experimental and that from that point on it was a wait-and-see proposition.

Mr. GLEASON. Right.

Mr. OSTERTAG. However, I did not realize that you might envision going as far as some 40-odd facilities which would in a sense wipe out all domiciliary care.

Mr. GLEASON. No, sir, it won't wipe out all domiciliary care. I said that it would cut it at least in half or more than in half. We might envisage so much as 6,000 to 7,000 domiciliary members at the very end, that we just cannot restore.

Mr. OSTERTAG. As we previously discussed and I repeat again that I heartily endorse and favor the idea of rehabilitation and I think it is possible that a few of these particular veterans might be rehabilitated and ultimately returned to their community. But across the board, I am of the opinion that the amount of rehabilitation that can be applied here is very limited and I would dislike very much to see you go beyond reason with view of reverting the whole domiciliary care program to that of a rehabilitation program because I do not think it will work.

Mr. GLEASON. We do not know whether it will work either, Mr. Ostertag, but we do want to have the opportunity of trying this because Dr. Middleton and his staff are confident that this will be workable and that it will be successful. As we mentioned yesterday, there is a study that we are going to make for the chairman of the House Veterans' Affairs Committee with reference to nursing home care so that we may wind up at some future date with not only hospitals and domiciliary and restoration centers but we may even be forced into nursing home care, which we hope we won't be.

HOSPITAL PATIENTS THAT COULD BE MOVED TO DOMS OR NURSING HOMES

Mr. JONAS. Doctor, how many of your 111,000 hospital population could be adequately taken care of in doms or nursing homes?

Dr. MIDDLETON. In nursing homes, I can only speak to that, sir, about 9,500.

Mr. JONAS. With adequate facilities for nursing home care you could make available nearly 10,000 beds that are now occupied by people who do not really have to be in hospitals?

Dr. MIDDLETON. These are individuals who require attention and require the nursing attendant and it can be of a level of nursing rather than on a medical basis.

Mr. JONAS. One other statement I would like to get in the record: Out of your hospital population, what percentage is service connected?

Mr. THOMAS. Excuse me just a moment before he answers that question. Let's keep the record straight.

(Discusion off the record.)

Mr. JONAS. What the chairman wants to get clear and so do I, if you relate this 9,500 to patients you are talking about 111,000.

Dr. MIDDLETON. That is right.

Mr. JONAS. But if you relate it to beds, you have to relate it to 122,000, so which is the true situation?

Dr. MIDDLETON. It is the actual number of patients on a given day. I would take the 7th of February and say that day, if we had the ability to move these patients according to need into nursing homes, we would have freed 9,500 beds. Now you take these long-term patients will have gone over months and years, whereas you will have a turnover of the other beds.

Mr. JONAS. That is about 10 percent.

Dr. MIDDLETON. That is 10 percent so far as it relates to the day; but what the chairman is driving at is the point that I cannot quite fix in my own mind because these other beds are turning over constantly. You have no turnover in these 9,500.

Mr. THOMAS. The figure you gave Mr. Jonas is on a daily bed occupancy. I guess that is the final test.

Mr. JONAS. You mean you could move out 9,500 tomorrow if you had a place to put them?

Dr. MIDDLETON. Yes, and we would have these remaining 102,000 beds which are constantly changing, changing at a very rapid rate in the case of general medical and surgical patients.

Mr. JONAS. What is the situation in the doms with respect to service connection? You do not have any service-connected people in doms?

Mr. GLEASON. There may be some, Mr. Jonas. It isn't a significant figure, sir.

Mr. JONAS. The majority of the people in the domiciliaries are non-service-connected cases.

Mr. GLEASON. That is right.

Mr. JONAS. People who do not require actual day-to-day medical attention but need care?

Mr. GLEASON. Nursing care, right.

Mr. THOMAS. To pursue that further, how can the restoration centers, whether they be 2 or 40, ever be effective as far as the doms are concerned because your average population in the doms are in excess of 60 years of age right now?

Dr. MIDDLETON. Sixty-four.

Mr. THOMAS. The only thing that will happen to them is they will get older and older and instead of requiring less attention they will require more. What do you mean by your restoration centers?

Mr. JONAS. You cannot restore or rehabilitate them on account of age.

Mr. THOMAS. There is nothing there. Physical limitations prevent you.

Mr. GLEASON. Mr. Chairman, I do not like to disagree but I think you can restore a great many people.

Mr. THOMAS. That is what makes business good in here. You can say whatever you desire.

Mr. OSTERTAG. How many of these 16,500 members now under domiciliary care do you figure could or should be rehabilitated?

Mr. GLEASON. We think more than 50 percent could be rehabilitated, Mr. Ostertag.

Mr. OSTERTAG. Despite their age and other infirmities?

Mr. GLEASON. Yes. The closer I get to 64 the younger it seems.

Mr. OSTERTAG. As the chairman pointed out, and I believe this is the point that bothers most of us about this whole issue is that they are aged veterans. They are not young fellows as the story goes but what rehabilitation can be applied? I mean what form of rehabilitation?

Dr. MIDDLETON. This, of course, is a very involved question, Mr. Ostertag. The veteran member in a domiciliary is a defeated member of society.

Mr. OSTERTAG. Did I understand you to say "defeated member of society"?

Dr. MIDDLETON. Yes, sir.

Mr. GLEASON. He has given up completely.

Dr. MIDDLETON. I have studied him very, very carefully and I have wondered at the success in motivation we have had to this point. There are two programs that are being very substantially supported by the agency, one at Wood, Wis., and the other at Los Angeles Center. Here they are bringing the member in and subjecting him to a very careful psychologic, physical, sociologic, and economic study. The social and economic phase is one important detail; but when I approached a staff man at Wood and said, "Here is a member that obviously has almost reached a stalemate in certain areas. We can move very few of these individuals." I used the phrase "defeated men" and he asked, "But who defeated them? Here we have a skilled mechanic. He happens to be 54 years old. Is there any firm in the city of Milwaukee who will engage this skilled mechanic at 54?" We have tried our best. We cannot. The defeat may be at the hands of society and not at the hands of the individual member. This, then, is a subject of very detailed study of these two groups and from a psychological standpoint they are attempting to motivate them; from

a physical standpoint they are attempting to rehabilitate them and from a socioeconomic standpoint, trying through the social agencies to get someone to pick up this individual who in the last analysis could be a useful member of society but he has just been discarded.

Mr. OSTERTAG. Dr. Middleton, let us take the case that you mentioned. We have a man well along in his middle fifties or older and you say that he cannot find employment because of his age.

Dr. MIDDLETON. Yes.

Mr. OSTERTAG. What can you do about that in restoration?

Dr. MIDDLETON. Here is the important detail of the socioeconomic phase that is being related to the community and working with the various industrialists in Milwaukee. They have been able to get a certain group of these individuals into gainful employment and to regain their self-respect, which is, after all, the most important detail.

Mr. OSTERTAG. Is it an employment service we seek?

Dr. MIDDLETON. That is part of the duties of the social service worker and they are working through the agencies of the community to implement this end .

Mr. JONAS. Will you yield?

Dr. MIDDLETON. Yes, sir.

RELATION OF NURSING HOMES TO OTHER PATIENT CARE FACILITIES

Mr. JONAS. I can understand that about people in their fifties but when you get beyond 64, what practical rehabilitation can you do? I would have thought that the next stage from the domiciliary would be a nursing home instead of rehabilitation center.

Dr. MIDDLETON. No, sir. The nursing home occupies an entirely different position as Mr. Gleason indicated. A nursing home is a proper residence for an individual who has ills, who cannot take care of himself, who does need continued attention but he is past the point where there can be medical gain in his care. Mr. Gleason has made a perfectly clear issue that we have these four different categories. First is the medical and the medical responsibility, which we are attempting to discharge, second is the restoration center that has obviously for its objective the rehabilitation of an individual who has come to a certain plateau of improvement and yet not quite able to get over the hump and take over and third, of course, the nursing home, where there is no prospect for this individual by and large. He is going to be an invalid, perhaps confined to his bed or wheelchair the rest of his days. The fourth is the domiciliary, the old soldiers home that provides for the care of the individual dislocated from society.

Mr. GLEASON. May I correct something that I said earlier? In the domiciliary care, Mr. Ostertag, the person must be ambulatory and he does not need nursing care itself. I just wanted to straighten that out. The nursing care is needed in the nursing home plan, not in the domiciliary.

Mr. OSTERTAG. Assuming that there is a need or an area of care that falls into the category of nursing care, why would it not be practical and wise to consider and study the problem to the extent of a reasonable conversion of domiciliary to nursing home care?

Mr. GLEASON. This is one of the things that Chairman Teague has asked us to make a study on. This would certainly be included in that.

AUTHORIZED HOSPITAL AND DOMICILIARY BEDS

Mr. OSTERTAG. It is not clear in my mind as to your overall authorization and the relationship of domiciliary care to the hospital bed authorization. In other words, you have a blanket authorization of 125,000, which, if I understood you correctly, excludes the domiciliary care.

Mr. GLEASON. That is correct.

Mr. OSTERTAG. Is there any limitation of domiciliary beds?

Mr. MONK. Yes, sir.

Mr. OSTERTAG. What is that?

Mr. MONK. It is 18,000.

Mr. OSTERTAG. And you actually have 18,000?

Mr. MONK. We do not have 18,000 in actual operation.

Mr. GLEASON. We do not need them.

Mr. OSTERTAG. In other words, you have total authorization of 125,000 hospital beds plus 18,000 domiciliary beds, making a total of 143,000 beds?

Mr. MONK. Except you should not, I think, Mr. Ostertag, speak of the domiciliary spaces as a bed in the sense that you use it in connection with the hospital bed because they are not set up as hospitals.

Mr. OSTERTAG. Whatever term you want to apply to it—spaces for people or members.

Mr. MONK. Yes.

Mr. GLEASON. The reason why we do not want you to confuse this is that it is so much more expensive, as you realize, to operate a hospital bed rather than a domiciliary bed.

Mr. OSTERTAG. I understand that.

Mr. GLEASON. We do not like to confuse the two and add them together.

Mr. OSTERTAG. What do you call the domiciliary allocation by numbers?

Mr. GLEASON. They are members.

Mr. OSTERTAG. In other words, you have authorization for 18,000 members?

Mr. GLEASON. Yes.

Mr. OSTERTAG. Then you are presently providing care for 16,500 or in that general neighborhod in domiciliary facilities.

Mr. GLEASON. Yes.

Mr. OSTERTAG. And 111,000 hospital bed care.

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. That is the general picture today?

Mr. GLEASON. Yes, sir.

Mr. MONK. Plus what we have in the contract hospitals and State homes.

Mr. OSTERTAG. Where do your restoration centers come in on this question of authorization? Are they a part of your domiciliary authorization?

Mr. MONK. Yes, sir, and not the hospital.

Mr. OSTERTAG. How many members or spaces do you have in each of these restoration centers?

Mr. GLEASON. At Hines, Ill., we have 120.

Mr. GLEASON. At East Orange it will be 200. These are pilot studies.

Mr. OSTERTAG. I understand. But that is a part of your domiciliary picture?

Mr. GLEASON. Yes, sir.

Mr. OSTERTAG. Consequently, the construction of these two facilities falls into place with your general picture or authorization of domiciliary members?

Mr. GLEASON. At this point, that is correct.

Mr. OSTERTAG. Will it remain that way?

Mr. GLEASON. It may not. It depends on what answers we find from these two pilot studies, Mr. Ostertag, whether this will reduce the domiciliary program, whether it will reduce our neuropsychiatric hospital care, whatever it does.

We do not know, yet. We just cannot answer that.

Mr. OSTERTAG. Is Hines fully operational today?

Mr. GLEASON. I believe it is.

Dr. MIDDLETON. Yes.

Mr. GLEASON. Around November it became fully operational although it opened last year and kept building up.

Mr. OSTERTAG. It is too early to determine just how this program is going to work?

Mr. GLEASON. Or how successful it will be because there may be some that are discharged from the restoration center that go back out into the community and maybe it will take a year or a year and a half and we will have them right back again. At this particular point we cannot say.

Mr. OSTERTAG. For example, if a veteran goes to Hines, has he been transferred there from domiciliary?

Mr. GLEASON. He may come from the Hines Hospital, itself, or from a domiciliary through the hospital.

Dr. MIDDLETON. He must come from a hospital.

Mr. OSTERTAG. A medical hospital?

Dr. MIDDLETON. Medical, neuropsychiatric hospital and determine that he has reached a point of maximum improvement but that a stay of a few weeks, months, may bring him back to as normal as possible. He can go out on his own. Then he is discharged. He may, however, go back to the hospital if he has not made a gain and has really lost ground. So far as domiciliary is concerned, he must be admitted through the hospital to the restoration center.

Mr. GLEASON. Which is a paper transfer.

Dr. MIDDLETON. Yes, sir.

Mr. GLEASON. I was trying to cut it short.

Mr. OSTERTAG. It is not clear to me.

Dr. MIDDLETON. In other words, if he is eligible for hospitalization he moves from the domiciliary to the hospital and there they say he can go into the restoration center because he has reached a certain level of improvement and a few months of these types of treatment, let's say, rehabilitation, may restore him to home or society at large.

Mr. OSTERTAG. Is this restoration program one which would fall into the category of medical or mental care?

Dr. MIDDLETON. It is medical care and it presently is charged against the bed allotment for the domiciliaries.

Mr. OSTERTAG. Then there would be a very limited number involved in domiciliary care that would be classified as being eligible for restoration care?

Dr. MIDDLETON. That is the occasion for these two studies that I outlined at the Wood Veterans Administration Center and out at Los Angeles Center.

Mr. OSTERTAG. On the other hand, you are not planning or the program does not call for moving men from domiciliary facilities into the restoration facilities?

Dr. MIDDLETON. Not primarily.

Mr. GLEASON. Not directly.

Mr. OSTERTAG. As a result, the needs or the applications or the general load in domiciliary care would not be affected by this in any way?

Dr. MIDDLETON. Very much so.

Mr. OSTERTAG. Why would it be under the circumstances you describe?

REHABILITATION OF DOMICILIARY PATIENTS

Mr. THOMAS. It is the same body who transfers from the "dom" over to the hospital and then into the restoration center. I agree with Mr. Ostertag. There cannot be more than 2 or 3 or 5 percent at best and what your result will be is anybody's guess. I do not know how you will restore a man 64 years of age to any useful purpose. He has had it, has he not?

Mr. GLEASON. We hope not.

Mr. MONK. One of the things on this 64- or 65-year-old man——

Mr. THOMAS. You will find more of them in your "doms" nearer 70 than 64.

Mr. MONK. That is right. Many of the men in the domiciliary today are there because they have withdrawn from society. We have found in going in and analyzing the member load that a man had been next bed to his fellow member for 10 or 15 years. He did not even know him.

Mr. GLEASON. He would not even talk to him.

Mr. MONK. He has completely withdrawn.

The restoration here, if it is possible, is to get this man——

Mr. THOMAS. We understand those details.

Mr. MONK (continuing). So he can be acceptable in society and live outside the institutional environments.

Mr. GLEASON. In other words, this type of man would then be able to be transferred into a hospital for psychiatric care and when he improves, rather than keep the occupancy of that bed, then we can send him over to the restoration center to put the finishing touches on and give him a graduate degree.

Mr. OSTERTAG. Psychiatry deals with the state of mind and mental condition. You mean that it is only physical and mental types of rehabilitation that will be applicable to your restoration centers?

Dr. MIDDLETON. Sir, I thought we covered in the question first of the psychologic, then the physiologic, then the social, economic viewpoint

of this situation, the needs of the patient who could perchance have benefit from restoration center functions.

Mr. OSTERTAG. I agree with the chairman, that if that is the limitation or that is the general application, it is difficult to conceive anything but a small percentage of the total veteran population that needs and requests domiciliary care would be applicable under such circumstances.

Mr. GLEASON. Mr. Ostertag, with 18,000 beds authorized or member spaces authorized under the domiciliary program, we have only got 16,500 members so there is 1,500 throughout the United States that could go there that are not. I think one of the reasons is that as we get along further we will have less demand for domiciliaries because there will be more people coming under social security benefits that they will be able to take care of them somewhere else.

Mr. THOMAS. Gentlemen, let us take a look at some of the details. This has been very helpful and very instructive. It accomplishes much.

SUMMARY OF MEDICAL PROGRAMS

Mr. Reporter, put in the record pages 19–1, 19–2, 19–3, 19–4, and 19–5. This is a preliminary statement. You have a lot of good material on incentive awards. This is contained on page 19–6. Let me suggest the committee review that again. There is a good page on 19–6. You have seven TB hospitals——

Dr. MIDDLETON. It is now six, if we may correct the record.

Mr. THOMAS. There are 7 left with only 1,734 patients, I notice there. This is very valuable information.

Mr. Reporter, include this entire summary through page 10.

Let us return to page 19–1 and take a look at it. This is the summary of appropriations.

(The pages referred to follow:)

DEPARTMENT OF MEDICINE AND SURGERY

Summary of appropriations

Appropriation title	Fiscal year 1962 actual	Fiscal year 1963 estimated	Fiscal year 1964 estimated	Increase (+) or decrease (−) 1964 over 1963
Medical administration and miscellaneous operating expenses appropriation or estimate	$13,376,500	$13,993,000	$14,982,000	+$989,000
Medical and prosthetic research appropriation or estimate	30,500,000	30,500,000	33,742,000	+3,242,000
(Medical research)	(29,500,000)	(29,500,000)	(32,467,000)	(+2,967,000)
(Prosthetic research)	(1,000,000)	(1,000,000)	(1,275,000)	(+275,000)
Medical care appropriation or estimate	989,371,000	1,049,766,000	1,087,688,000	+37,922,000
Department of Medicine and Surgery appropriations or estimates	1,033,247,500	1,094,259,000	1,136,412,000	+42,153,000

NOTE.—The above table reflects comparative appropriation amounts in accordance with the appropriation structure requested for fiscal year 1964.

Amounts appropriated under the head "Medical administration and miscellaneous operating expenses" were $43,876,500 in fiscal year 1962, which included allowances for "Medical and prosthetic research" activities. Financing of medi-

cal and prosthetic research activities was consolidated under a new "no year" appropriation structure again requested for fiscal year 1964. Therefore, the comparative year amounts shown for the "Medical administration and miscellaneous operating expenses" appropriation in the above table include only the amounts appropriated or required for "Medical administration" activities of the central office and area medical offices of the Department of Medicine and Surgery, Office of the Assistant Administrator for Construction, and "Education and training" activities of the Department of Medicine and Surgery.

Amounts shown in the fiscal year 1963 columns on the preceding page include all known supplemental appropriation requirements for the current fiscal year. These are comprised of presently unfunded costs of Public Law 87–793 salary and postal rate increases and Public Law 83–763 wage board increases that must be paid in the current fiscal year. Since appropriations were not available in the early months of the 1963 fiscal year, expenditures were controlled by the agency in accordance with provisions of the joint resolution of the Congress (Public Law 87–513), thus creating savings that will be applied against the agency's fiscal year 1963 supplemental appropriation requirements.

The following table reflects the total fiscal year 1963 unfunded costs, anticipated savings, and net supplemental appropriation requirements contemplated by this estimate for VA medical programs:

Appropriation title	Fiscal year 1963 unfunded costs	Fiscal year 1963 anticipated savings	Fiscal year 1963 net supplemental appropriation requirements
Medical administration and miscellaneous operating expenses	$512,000	$291,000	$221,000
Medical and prosthetic research	650,000	650,000	
Medical care	34,365,000	2,491,000	31,874,000
Department of Medicine and Surgery, total	[1] 35,527,000	3,432,000	32,095,000

[1] All amounts are attributable to Public Law 87-793 salary and postal rate increases except $9,000,000 required under the medical care appropriation to pay fiscal year 1963 costs of Public Law 83-763 wage board increases approved during the period July 1, 1961, through June 30, 1963.

Of the $42,153,000 increase requested for agency medical programs in fiscal year 1964, $35,814,000 or 85 percent will be required for continuance of operations at fiscal year 1963 levels. The $35,814,000 will be required to pay costs of the additional 2 paid workdays and 1 calendar day occurring in fiscal year 1964, and the higher salary rates resulting from Public Law 87–793 and within-grade step increases. Only $6,339,000 or 15 percent of the total increase relates to workload or other program changes including the planned activation of new medical facilities, after considering changes in anticipated reimbursement collections and adjustments in wage board costs. An analysis of the increases required for fiscal year 1964 appears in the following table:

	Medical, administration and miscellaneous operating expenses		Medical and prosthetic research		Medical care		Total	
	Dollar	*Percent*	*Dollar*	*Percent*	*Dollar*	*Percent*	*Dollar*	*Percent*
Additional 2 paid workdays and 1 calendar day	82,000	8.3	188,000	5.8	7,090,000	18.7	7,360,000	17.5
Within-grade step increases	80,000	8.1	148,000	4.6	5,344,000	14.1	5,572,000	13.2
Public Law 87-793 salary and postal rate increases	516,000	52.2	696,000	21.5	21,670,000	57.1	22,882,000	54.3
Workload and other program changes	311,000	31.4	2,210,000	68.1	3,818,000	10.1	6,339,000	15.0
Total	989,000	100	3,242,000	100	37,922,000	100	42,153,000	100

The fiscal year 1964 amount of $1,087,688,000 for the "Medical care" appropriation shown on page 19–1 excludes the cost of wage rate increases that will accrue between July 1, 1962, and June 30, 1964. Supplemental appropriation requirements therefor will be transmitted separately later in the 1964 fiscal year.

APPROPRIATION ESTIMATE—FISCAL YEAR 1964

The Veterans' Administration is responsible for providing medical care and treatment to eligible veterans as authoritzed by law (title 38—United States Code). Medical program financial requirements for fiscal year 1964 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 VA; 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, and outpatient clinics; care of beneficiaries in contract hospital facilities not under jurisdiction of the VA; and aid to State or territorial homes for support of veterans eligible for care by the Veterans' Administration.

Effective with the fiscal year 1963, financing for the Veterans' Administration medical and prosthetic research activities was consolidated under a no-year appropriation head titled "Medical and prosthetic research." This sets forth more clearly the financial requirements for research activities previously funded under the "Medical administration and miscellaneous operating expenses" appropriation.

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 by amending or eliminating standards and practices which do not meet the criterion of essentiality.

Economy measures and management improvements

Optimum economy and effectiveness are continuing objectives in the agency's medical programs. A number of management improvement actions either accomplished or in process are outlined below as examples of efforts at all levels of operation.

(*a*) *Increased numbers of patients admitted, treated, and discharged at Veterans' Administration hospitals*—The programs of prebed and postbed care authorized under provisions of Public Law 86-639 enabled certain VA patients to receive outpatient treatment adjunct to their hospital stay. These programs permitted the Veterans' Administration to follow preadmission and postdischarge medical practices similar to those employed generally in the practice of medicine.

During fiscal year 1962, the first full year of operation under the Public Law 86-639 authorization, 9,789 patients were admitted to agency hospitals through the prebed care program, making 14,992 visits to the hospitals during the 7 days prior to admission. Follow-up care through the postbed program provided 302,537 patients the opportunity to shorten their hospital stay and return earlier to their homes and families. These patients made over 628,000 visits to VA hospitals for postbed care.

The pre- and post-bed care programs, together with improvements in hospital staffing, made possible substantial increases in the numbers of patients admitted, treated, and discharged at VA hospitals in the 1962 fiscal year. These increases

are particularly significant since the proportion of veteran patients requiring treatment for long-term illnesses and disabilities continues to grow.

	Fiscal year 1961	Fiscal year 1962	Increase	Percent of increase
Patients admitted to VA hospitals	537,022	561,808	+24,786	+4.6
Patients treated in VA hospitals	664,400	688,507	+24,107	+3.6
Patients discharged from VA hospitals	540,068	563,417	+23,349	+4.3

(*b*) *Consolidation of reporting for agency general medical and surgical and tuberculosis hospitals.*—Effective July 1, 1962, with approval of the Bureau of the Budget, all financial and statistical data reported under the separate "General medical and surgical hospitals" and "Tuberculosis hospitals" categories were consolidated under a single reporting category titled "General hospitals."

The scope of the agency's tuberculosis program has dwindled steadily over the past several years. Since fiscal year 1959, 11 hospitals formerly classified as TB hospitals were redesignated as general medical and surgical hospitals. By the close of the 1962 fiscal year, the aggregate patient load in the 7 remaining TB hospitals numbered 1,734 patients (comprised of 381 medical and surgical patients and 1,353 tuberculosis patients) or about 1½ percent of the patient load in all VA hospitals. The 1,353 tuberculosis patients in TB hospitals constituted less than 20 percent of the 6,907 total TB patient load remaining in the VA system. Thus, continuance of the separate reporting category for the seven TB hospitals was not warranted.

This change is confined to the merger of data reporting for general medical and surgical hospitals and tuberculosis hospitals only. It does not transcend present policy for retaining the TB designation at each existing TB hospital until such time as (*a*) beds are used predominantly for care of other type illnesses, or (*b*) beds are transferred within the framework of the approved 125,000 bed ceiling as part of the long-range hospital replacement and modernization program.

The extent of man-hour or dollar savings that will result from the merger of these reports cannot be projected accurately. However, inclusion of TB hospital data under the single "General hospitals" category will still permit accumulation of all meaningful data while eliminating separate TB sections of departmental and agency budget estimates, cost statements, statistical summaries, and related reports.

(*c*) *Incentive awards program.*—The interest and endeavor of Department of Medicine and Surgery employees in bringing about increased efficiency and reductions in cost of operations are demonstrated by the Department's incentive award program. In fiscal year 1962, there were 22,800 suggestions submitted, of which 47.9 percent were adopted. Tangible savings of approximately $911,000 were realized from these suggestions and applied to the steadily increasing cost of medical program operation. Awards of $123,000 were paid for the adopted suggestions which consisted primarily of work improvement ideas, accident-prevention measures, and ideas for improvement of patient care. Awards of $408,000 also were paid 4,607 employees for improved work performance.

(*d*) *Scheduled functional review and appraisal of field station programs.*—Under a system of scheduled functional review and appraisal, planned management audits were completed in calendar year 1961 and 22 Department of Medicine and Surgery field station programs. Total benefits reported included 1,110,000 man-hours, a monetary value of $3,900,000 and 2,200 improvement actions. The resources which became available were applied to the steadily increasing medical program costs in accordance with demonstrated need.

Significant improvement actions which have potential application at other locations are published in "Department of Medicine and Surgery Evaluation Digests" to encourage their adoption.

Prompt action is taken to insure that the adopted improvements receive the broadest application throughout the Veterans' Administration, and to exchange ideas for improvements with other Federal agencies.

(*e*) *Automatic data processing.*—The Department's endeavors in this field are directed to the development of integrated automatic data processing systems on

an agencywide basis in the areas of fiscal management, supply management, pay administration, medical administrative operations, clinical medicine, and medical and dental research.

Emphasis is being placed on introducing and extending the use of automatic data processing equipment at local, regional, and central locations, consistent with the specific needs of each location. Installations of such equipment now have been accomplished at 66 locations. This equipment primarily has been used in the automation of fiscal and payroll applications and production of financial reports for all levels of management.

The development of automated systems in patient control and outpatient reporting areas has been completed and these systems now are being tested. Potentials of increased automation in engineering, medical research, patient data, and supply fields and the integration of related systems also are being studied.

Additional computers are being installed at agency hospitals to aid in the conduct of medical research activities, and with other computers which will be available at medical research support centers will provide service and training for individual hospital research personnel.

The medium size computer recently installed at the Los Angeles VA Center presently provides many services to the administrative elements of that station and to other stations in the area.

Continued efforts will be made by the Department's data processing staff during fiscal years 1963 and 1964 to expand the automation and integration of departmental areas of responsibility to assure more valid and current information for management.

(*f*) *Design of new hospital facilities.*—A study of building code fire protection requirements resulted in revision of the VA standards for the design of hospitals and auxiliary buildings. The application of these new standards should make possible significant cost reduction in future VA hospital construction projects consistent with built-in fire safety.

Automated conveyor systems for food service and for distribution of hospital supplies are being recommended for hospital construction projects to procure maximum efficiency and economy. Such systems are included in the designs for the new VA hospitals in Washington, D.C., and Wood, Wis.

(*g*) *Veterans Administration voluntary service program.*—Since inception of the Veterans Administration voluntary service plan in 1946 for community participation in the care and treatment of veteran patients, the number of hours served by volunteers has increased steadily from 3 million in the first fiscal year of operation to over 7 million for the fiscal year 1962.

Volunteers serve in approximately 30 medical programs where they supplement the work of the professional staff on behalf of the patients and domiciliary members. Volunteer assistance has been extended beyond the hospital and domiciliary and now includes outpatient clinics, day care centers, and the restoration center. Volunteers also provide community services in nursing homes, sheltered workshops, half-way houses, and even in the homes of patients. Increasingly, they are participating in programs geared to helping patients who have left the hospital in adjusting to home and community life.

The National Veterans Administration Voluntary Service Advisory Committee, composed of representatives of 41 national organizations, plays a continuing dynamic role in the overall planning and direction of the volunteer program.

(*h*) *Employee travel performed directly in connection with care and treatment of VA medical beneficiaries.*—The Veterans' Administration believes that the Congress does not intend to penalize medical care programs by restricting employee travel which is necessary to the care and treatment of medical beneficiaries. Accordingly, the agency requests with approval of the Bureau of the Budget that the general provisions of the Independent Offices Appropriation Act, 1964 exempt "travel performed directly in connection with care and treatment of medical beneficiaries of the Veterans Administration" from the application of employee travel limitations.

Approximately 28 percent of the travel expenditures incurred by agency hospitals and clinics is for employee travel performed directly in connection with the care and treatment of VA medical beneficiaries. Included in this category is employee attendant travel and travel of treatment staff concerned with increasing hospital turnover and clinic productivity rates.

Under present arrangement this type of travel is restricted by limitation with the result that delays are encountered and full potentials are not realized in

rendering required medical services to eligible beneficiaries. The areas primarily affected are:

(1) Employee attendants: Attendants normally must accompany patients transferred within the VA hospital system, or upon the removal from civil, State, or private hospitals of patients found eligible for VA care. To conserve the employee travel limitation, employment of contract attendants frequently has been necessary. This arrangement has not proved satisfactory because hospitals have great difficulty in securing the services of qualified contract attendants, and the cost of contract attendant services generally is greater than if employees were used in this capacity.

(2) Medical care of patients in their homes: As part of the effort to meet mounting pressures on the agency's medical system, there are many programs extending medical care to the veteran outside the hospital which are designed to avoid the high cost of protracted hospitalization. There are programs for the blind, the foster home and trial visit porgrams, visits by social workers, visits by physicians and nurses to terminal cases and paraplegic patients, to name but a few. Applicability of the employee travel limitation to these activities produces sizable backlogs of required medical visits, and staff employed specifically for these purposes cannot be authorized to perform fully the duties for which they were employed.

(3) Additional administrative expense: Total medical care appropriation amounts authorized for employee travel constitute less than one-tenth of 1 percent of hospital, domiciliary, and clinic budgets. Inability to predict precise locations where emergency patient transfers and home care program backlogs may arise requires that a large portion of available employee travel funds be held in reserve in the central office or area medical offices. Release of these funds for individual emergencies, often involving allotment of only a few dollars, generally necessitate a long-distance telephone request from the hospital to the area medical office, dispatch to the hospital of a confirmatory teletype citing allotment amount, allotment serial number, and appropriation symbols; formal issuance of an allotment document; and processing and recording of the individual document at both the hospital and the area medical office. These actions and the undue administrative expenses cited can be eliminated with adoption of the proposed amendment to the general provisions of the fiscal year 1964 Independent Offices Appropriation Act.

(*i*) *Determination of equipment replacement needs.*—During the 1962 fiscal year, a special study was completed to determine more accurately VA's current and long-range financial needs for replacing worn and obsolete equipment. This study was undertaken by the agency with full participation and assistance of the Bureau of the Budget.

A new system was developed to determine by fiscal year, those equipment items which should be replaced in accordance with prescribed equipment-replacement standards (equipment life-expectancy tables) and equipment-use standards. Annual financing needs then were computed by repricing items to reflect current replacement costs. These data provided the basis for the agency's budget estimate for equipment replacement. Individual field station data are utilized to equitably distribute all amounts appropriated for equipment replacement. Thus, the system developed is designed to establish a sound equipment replacement program for each future year; eliminate the current replacement backlog; and assure accuracy of the estimate of funds necessary to carry out the replacement program.

The table on the following page reflects for each of the fiscal years 1963 through 1966 (1) the dollar value of medical care appropriation equipment items which will exceed established replacement criteria and should be replaced; (2) planned expenditures of previously appropriation construction of hospital and domiciliary facility equipment amounts and estimated acquisitions of excess property from other agencies that will be applied against each annual requirement; and (3) planned expenditures and estimates of future medical care appropriation amounts necessary to elimate backlogs and place the continuing replacement program on a sound basis.

Mr. THOMAS. You have four or five titles, medical administration and miscellaneous operating expenses, medical and prosthetic research. That is broken down into medical research and prosthetic research, and then you have your big medical care estimate. Then I believe it really breaks itself down into only three heads, with two subdivisions. Medi-

cal administration has been changed around physically but not necessarily dollarwise by your recent reorganization; is that correct?

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. We will break down "Medical administration and miscellaneous operating expenses." For 1962 it was $13,376,500. It shows an increase in 1963 to almost $14 million, and then for 1964 in round figures again it is $15 million.

Medical and prosthetic research goes up $3,242,000 this year as against last year, making it a total of $33,742,000.

That is broken down into medical research, $32,467,000, an increase in round figures of $3 million, and your prosthetic research goes from $1 million up to $1,275,000. That is the appliances and the research, and you go into that with quite a bit of justification. You have two big centers, one in New York and one in California. Where is the center in California, at Mare Island? I refer to the prosthetic center. It is still in Mare Island. The other is located in the Veterans' office, about the 20th floor, in New York City.

For this year you have an overall cost for medicine in the VA of $1,136,412,000, an increase of $42,153,000. We will look into that in a minute. About 85 percent of that increase, or $35.8 million, goes for salary increases, and about 15 percent, if I am correct, $6.3 million going for new activities.

Let us analyze on 19–2, "Medical administration and miscellaneous operating expenses" [reading]:

The following table reflects the total fiscal year 1963 unfunded costs, anticipated savings, and net supplemental appropriation requirements contemplated by this estimate for VA medical programs.

SUPPLEMENTALS—FISCAL YEAR 1963

You set out your supplementals here. You list medical administration and miscellaneous operating expenses. You are seeking $221,000. That is part of your supplemental. There is none for medical and prosthetic research; medical care is $31,874,000. That makes a total of $32,095,000.

The footnote reads:

All amounts are attributable to Public Law 87–793 salary and postal rate increases, except $9 million required under the medical care appropriation to pay fiscal year 1963 wage board costs.

Of the $42,153,000 increase requested for Agency medical programs in fiscal year 1964, $35,814,000, or 85 percent, will be required for continuance of operations at fiscal year 1963 levels.

You have $6,339,000, or 15 percent new money.

This table here is very excellent. Whose brainchild is that? Is this Professor Wise?

Mr. BAKER. Yes, sir.

INCREASE IN MEDICAL PROGRAMS FOR 1964

Mr. THOMAS. Look at this table, gentlemen, dollars and percent and the more I study it the more I become confused. For that reason I think I must have spent 15 or 20 minutes on it. It does make sense if you can get it all in perspective. It is the first time I have seen it done this way. You have done it in two or three spots in here. It is all

right. You take your additional 2 paid workdays and 1 calendar day. This is for the fiscal year 1964.

Mr. BAKER. That is right, sir.

Mr. THOMAS. The total cost is what?

Mr. WISE. $7,360,000 for the Department of Medicine and Surgery.

Mr. THOMAS. $7,360,000.

Mr. GLEASON. You mean just for the Department of Medicine and Surgery.

Mr. THOMAS. You have medical administration, medical research, and medical care. This total means the total for your three divisions, does it not?

Mr. BAKER. Within the Department of Medicine and Surgery.

Mr. THOMAS. That is what I refer to, within D.M. & S.

Mr. BAKER. That is right, sir.

Mr. THOMAS. So your cost for your extra workdays in this one division, "Medical administration," amounts to $82,000 and of your total cost what is it, 8.3 percent?

Mr. MONK. 8.3 percent of the total cost, additional cost in "Medical administration" and "Miscellaneous operating expenses," a total of $989,000.

Mr. THOMAS. For "Medical and prosthetic research" it is $188,000 and of the total cost it is 5.8 percent; in "Medical care," $7,090,000 it is 18.7 percent and the total increased cost is $7,360,000, but your next column was very confusing.

Mr. MONK. That $7,360,000 is 17½ percent of the total cost of the $42 million.

Mr. THOMAS. I understand. I figured it out on my own after spending 30 minutes on it; I should have done it in 3.

WITHIN-GRADE INCREASES

Within-grade is $80,000 for medical administration, $148,000 for medical research, which is 4.6 percent of the cost and for medical care it is $5.3 million. The entire cost to the Department of M. & S. is $5.6 million. What does it average out for your D.M. & S. for in-grade promotions?

Mr. BAKER. $40.80 per employee.

Mr. THOMAS. I am talking about the total appropriation for salaries.

Mr. WISE. Thirteen percent of the total increase for all medical activities is attributable to within-grade increases. It is slightly less than 1 percent of the total payroll.

Mr. THOMAS. For salaries alone?

Mr. WISE. That is right.

Mr. BAKER. Six-tenths of 1 percent of salaries.

Mr. THOMAS. Those tables are quite interesting but I had a hard time understanding them at first.

Mr. GLEASON. They are worth the money, Mr. Chairman.

ELIGIBILITY REQUIREMENTS FOR VA MEDICAL CARE

Mr. THOMAS. This is interesting. You list your objectives and your estimates on page 19–4:

(Reading:)

The Veterans' Administration 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 1964 are budgeted under three operating appropriations as follows.

Who is eligible? "Medical program financial requirements" are broken down into three classifications, "Medical administration and miscellaneous operating expenses," "Medical and prothetic research," and "Medical care." Of course, under "Medical care" now you have consolidated outpatient clinics, which is a little better than $100 million. You have included doms and inpatient care plus your outside institutions.

Mr. BAKER. State homes.

Mr. THOMAS. State homes, yes.

What is your yardstick under title 38, United States Code, as to who is eligible?

Dr. MIDDLETON. First of all service connected and then service connected with non-service-connected complaint, and then nonservice connected. That is the general classification that is used.

Mr. THOMAS. How does the statute read exactly? Does it require an honorable discharge?

Mr. DRIVER. Other than dishonorable.

Mr. THOMAS. What is your yardstick? You have more discharges than Carter has pills. What is your yardstick?

Dr. MIDDLETON. VA has responsibility for providing hospital care to veterans with service-connected disabilities and within the limits of existing VA facilities to veterans with non-service-connected disabilities who cannot defray the cost of hospitalization.

VETERAN'S ABILITY TO PAY HOSPITALIZATION COSTS

Mr. THOMAS. What is the yardstick on that last clause, who cannot defray the cost of hospitalization?

Dr. MIDDLETON. We have developed a very strong counseling program within the past year, Mr. Chairman, and this means that individuals in the registrar's division of the hospitals have been carefully indoctrinated in the terms of veteran eligibility.

Mr. THOMAS. Before you go to your counseling what does the law say?

Mr. MONK. The law says that the statement of the veterans as to his inability to pay shall be accepted by the Administrator, period.

Mr. THOMAS. You cannot go behind that statement?

Mr. MONK. That is what the law says.

Mr. BRICKFIELD. As to admission into the hospital.

Mr. GLEASON. If we later find that he did have the ability to pay, then we can civilly prosecute.

Mr. THOMAS. Do you really go into that statement, that he is not able to pay in any case?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. What do you do?

Mr. GLEASON. Ask him for a financial statement.

Mr. THOMAS. What do you mean? What distinction is there? The law says his statement shall be final. Do you limit that to admission?

Mr. BRICKFIELD. Yes. We can investigate later so that the Justice Department can determine whether to sue for fraud.

Mr. THOMAS. When he is ready to go out the statement does not apply. Then you talk about payment?

Mr. BRICKFIELD. No. The law says that he shall be admitted and if he signs an affidavit of his inability to pay, that means we cannot delay his admission. The law also says, and this has been handed down by court decision, that where he can pay, he had the ability to pay, that he should pay. If we find that he is able to pay——

Mr. THOMAS. And the court decision goes behind his statement then?

Mr. BRICKFIELD. Yes, sir, if the statement was fraudulent.

Mr. DRIVER. The judgment on his statement.

Mr. THOMAS. When was that decision handed down?

Mr. BRICKFIELD. It was handed down, I think, in Kansas, Mr. Thomas, about 1956 and it was followed in another decision in Florida some time later. There have been decisions the other way but we are confident that our position under the Civil Frauds Act will gain further judicial acceptance.

Mr. THOMAS. Go ahead.

Mr. BRICKFIELD. There have been 68 other cases out of those submitted to Justice for civil fraud action in which there were recoveries through settlements or compromises by the Department of Justice.

Mr. THOMAS. Who has the burden of showing deliberate or willful fraud?

Mr. BRICKFIELD. The Government does.

SERVICE-CONNECTED DISABLED VETERANS

Mr. THOMAS. What percentage of the patients are nonservice connected in the various hospitals?

Dr. MIDDLETON. On October 31, 1961, 40.6 percent were service-connected disabled veterans.

Mr. THOMAS. That is too high, is it not? You usually use a figure of about 20 percent, do you not?

Dr. MIDDLETON. No, sir. This includes those admitted for service-connected conditions (30.8 percent) or those with compensable service-connected conditions (9.8 percent) who were admitted for other causes.

Mr. THOMAS. When a fellow gets to be a certain age he will have ailments common to everybody. He is a veteran and he is eligible.

Mr. GLEASON. He is eligible if he meets the admission requirements and we have a bed available.

Mr. THOMAS. That is what we are talking about now, Mr. Administrator. Tell us what they are.

Mr. GLEASON. As we mentioned, the financial ability to pay.

Dr. MIDDLETON. Those figures were compiled from a census taken on 1 day, October 31, 1961. It is 30.8 percent service connected, 9.8 percent service connected with compensable disability receiving care for non-service-connected disabilities and then 59.2 percent non-service-connected.

Mr. THOMAS. With this medical cost going up and up every year, I do not know who is able to pay a State hospital bill for protracted illness.

Mr. Ostertag?

Mr. OSTERTAG. Dr. Middleton, along the line of inquiry of the chairman relative to the issue of ability to pay, does that apply to a service-connected case?

Dr. MIDDLETON. No, sir. Service connected does not apply.

Mr. OSTERTAG. Does it apply to a service-connected veteran whose disability or hospitalization relates to a disability other than that which is service-connected?

Dr. MIDDLETON. No, sir.

Mr. OSTERTAG. In other words, a service-connected case is entitled, regardless of his income or his resources, to complete, free medical and hospital care?

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. Gentlemen, we will go to lunch now and come back at 1 o'clock.

AFTERNOON SESSION

Mr. THOMAS. Gentlemen, the committee will please come to order.

May I invite the committee's attention to page 19–5. Here is the justification for your rise in cost, if there be one.

NUMBER OF PATIENTS TREATED

May I read these paragraphs:

The programs of prebed and postbed care authorized under provisions of Public Law 86–639 enabled certain VA patients to receive outpatient treatment adjunct to their hospital stay. These programs permitted the Veterans' Administration to follow preadmission and postdischarge medical practices similar to those employed generally in the practice of medicine.

During fiscal year 1962, the first full year of operation under the Public Law 86–639 authorization, 9,789 patients were admitted to agency hospitals through the pre-bed-care program, making 14,992 visits to the hospitals during the 7 days prior to admission. Followup care through the postbed program provided 302,537 patients the opportunity to shorten their hospital stay and return earlier to their homes and families. These patients made over 628,000 visits to VA hospitals for postbed care.

Mr. JONAS. I would like to invite your attention to that strange language that you just read. They made every possible effort to tell you how few took advantage of this opportunity.

"Provided 302,000 patients the opportunity to shorten their hospital stay."

Why don't you tell us how many shortened it?

Mr. BAKER. I think all of them did, sir.

Mr. JONAS. You didn't say that, though.

Mr. THOMAS. It says, "Patients admitted to the Veterans' Administration hospitals in 1961, 537,000 in round figures, 561,000 in fiscal year 1962." An increase in round figures of 25,000.

Patients treated in hospitals, 664,400 in 1961; 688,000 in fiscal year 1962.

Patients discharged in 1961, 540,000; and 1962, an increase to 563,000.

Patients admitted is one figure and patients treated is another. When you admit a man, don't you treat him? What do those figures mean, anyway? What are you admitting him for if you are not going to treat him? Does this include your outpatient clinic? Are you commingling them?

Mr. BAKER. These are all inpatients.

Mr. THOMAS. What does that mean? Five hundred and thirty-seven thousand admitted to a hospital and then patients treated in the same hospitals, 664,000. There is about a 20-percent difference.

Mr. BAKER. At the beginning of the 1961 fiscal year, sir, we had 112,271 patients in bed and on leave of absence. We admitted 537,000 additional. We treated the ones already there plus the ones admitted.

Mr. THOMAS. Is that the answer?

Mr. BAKER. That is right.

Mr. THOMAS. It would save us a lot of time if you would just put that in.

Let's see if that figures out just exactly right.

You couldn't have any more patients than you have beds, so if you had them at the beginning of the year why didn't you put them in there, Doctor?

The 112,000 on top of your 537,000 gives you 649,000 and you took credit here for 664,000, so you are still short 15,000.

Dr. MIDDLETON. Trial visits are still counted as patients.

PATIENTS OUT OF HOSPITAL ON TRIAL VISIT

Mr. THOMAS. What is a trial visit?

Dr. MIDDLETON. You have a patient who has psychotic condition and he has come to the point of improvement so you may see if he is fit to go back to his home environment. He is on trial but is still a patient.

Mr. BOLAND. You have a number of those and it is a good program.

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. Before you could send him home on a "trial run" you had to admit him. You are still short 15,000 patients. What are you going to do with those trial visits, or what are you going to do with the 15,000?

Mr. BAKER. We have over 11,000 trial visits. We have the ones already in the hospital——

Mr. THOMAS. How long will he stay there for a trial visit?

Mr. BAKER. It will vary from several weeks to several months and perhaps longer.

Mr. THOMAS. He is admitted to the hospital, isn't he?

Mr. BAKER. Before he goes on the trial visit; yes, sir. But at the beginning of the year we had 11,000 of them also on trial visits plus those already in the hospital.

Mr. THOMAS. Weren't they counted in there as on hand? You had 112,000 patients.

Mr. BAKER. They are not counted in the beginning inventory of 112,000 patients. They are out of a hospital on a trial basis.

Mr. THOMAS. Every day?

Mr. BAKER. Yes, sir.

Mr. THOMAS. Do they just come in and register in the morning?

Mr. BAKER. No, sir. They have been in the hospital and have been put out into another location to see if they can adjust to the local community. They are not occupying a hospital bed, but they are still considered a patient of the hospital. You have to add those.

Mr. THOMAS. Have you 11,000 of those?

Mr. BAKER. During the year there was something over 45,000.

Mr. THOMAS. Let's get these figures a little bit more accurate and clear.

Mr. BAKER. We try to be factual, sir. We will add those in.

Mr. THOMAS. You don't include a lot of visitors when they come out there to see your patients, do you?

Mr. BAKER. No, sir.

Mr. THOMAS. You don't have 11,000 of those listed there?

Mr. BAKER. No, sir.

Mr. THOMAS. You have a nice program where people of the community come out there, your voluntary organizations, do you count those in?

Mr. BAKER. No, sir.

Mr. THOMAS. You have lost 15,000 and I hope you find them in your tables here. You say 11,000 are on trial visits. Where are the other 4,000?

Mr. GLEASON. Next year would you like to see the figures on those who are on trial visits as of the end of the year?

Couldn't we supply that?

Mr. BAKER. Yes, sir.

Mr. THOMAS. Straighten it out at this point. Put a table in the record that shows those on trial visits.

(The information supplied follows:)

VA hospitals—Summary of patients treated during fiscal year

Fiscal year	Fiscal year 1961	Fiscal year 1962
Patients remaining end of fiscal year:		
In bed	105,460	105,350
On leave of absence	6,811	6,536
On elopement	648	679
On trial visit	11,413	12,525
Total remaining	124,332	125,090
Patients discharged during fiscal year	540,068	563,417
Patients treated during year	664,400	688,507

CONVERSION OF TB HOSPITALS

Mr. THOMAS. I might read the top of 19–6, gentlemen. This is quite interesting.

Since fiscal year 1959, 11 hospitals formerly classified as TB hospitals were redesignated as general medical and surgical hospitals. By the close of the 1962 fiscal year, the aggregate patient load in the 7 remaining TB hospitals numbered 1,734 patients (comprised of 381 medical and surgical patients and 1,353 tuberculosis patients) or about 1.5 percent of the patient load in all VA hospitals.

How many purely TB hospitals do you have or did you have to begin with?

Dr. MIDDLETON. We had 21 prior to 1958.

INCENTIVE AWARDS

Mr. THOMAS. You speak to incentive awards. I hope it is worth the money.

In fiscal year 1962 there were 22,800 suggestions submitted, of which 48 percent were adopted. I cannot imagine any such figure. What was wrong? You adopted here in 1 year 11,000 suggestions on how to run your hospital. Now, that doesn't make sense, does it? And you turn around and paid $991,000 for that?

Mr. GLEASON. No, sir, that is the savings that we effected.

Mr. THOMAS. "Awards of $123,000 were paid." I don't know how you arrived at that figure of $900,000. You might be figuring that out, Dr. Wise.

"Awards of $408,000 were also paid to 4,607 employees for the improved work performance."

Now you have an in-step promotion program and now you are going to have to have a half a million dollars for awards.

Mr. BAKER. An incentive program.

Mr. THOMAS. $407,000. Does one person get more than one award?

Mr. BAKER. Generally not, sir. I think it would be very rare if one ever did.

Mr. THOMAS. "Awards of $408,000 were paid to 4,607 people."

Dr. MIDDLETON. That is out of 135,000 employees.

Mr. THOMAS. And 11,000 of them made beneficial suggestions.

AUTOMATIC DATA PROCESSING

There is a good paragraph on automatic data processing on page 19–7. (Reading.)

Emphasis is being placed on introducing and extending the use of automatic data processing equipment.

This has been accomplished at 66 locations.

The equipment has been used for automatic payroll applications. Is there anything else you can use it for in the Bureau of Medicine and Surgery?

Dr. MIDDLETON. Supply and personnel.

Mr. GLEASON. I would like to refer back to the first day if I might, when we advised the committee we have now designated a new department, the Department of Data Management. All of the automatic data processing equipment, both in the Department of Medicine and Veterans Benefits and Insurance, will be combined into one department to do all the work so it won't be segregated. It was too late for us to get the facts for the preparation of this budget.

Mr. THOMAS. What does this equipment cost you on an annual basis?

Mr. BAKER. I don't know that I can separate the figures specifically for automatic data processing, but we pay about $1.2 million rental for all leased equipment.

Mr. THOMAS. You are going to be able to do it next year because it is all sent to Hines, isn't it?

Mr. GLEASON. Hines will be under the new department also. Next year we will be able to give all of the facts if the budget is passed as we present it here, and there will be an apportionment made from the Department of Medicine and Surgery to the Department——

Mr. THOMAS. What will it be for the Department?

Mr. BAKER. It will be $1,210,000 for fiscal year 1964. That is for the rental of all equipment. That includes other equipment in addition to the automatic data processing, but ADP is perhaps 90–95 percent of the total.

Mr. THOMAS. You have just standard equipment which you won't separate. This is just automatic data processing equipment?

Mr. BAKER. Yes, sir.

Mr. THOMAS. Your adding machines and normal office equipment——

Mr. BAKER. We do not rent that either.

Mr. EVINS. How much is the figure for the Medical Department alone for payments——

Mr. BAKER. Of all the equipment we rent, which is mostly automatic data processing equipment, it is $1,210,000 estimated for fiscal year 1964.

Mr. EVINS. How much, Mr. Administrator, is the payment for the equipment for the departments other than medicine?

Mr. GLEASON. Mr Evins, this is why we decided to buy the equipment last year as well as this year. I mentioned in the opening statement this came to a total of about $5.8 million. We propose that this will save the Government and return to the Government full payment within 3 years, on the savings we effect.

CONTRACTS FOR MAINTENANCE OF ADP EQUIPMENT

Mr. EVINS. After you have bought it how much do you have to pay for them to check it, inspect it, grease it, oil it and so forth every year?

Mr. GLEASON. This is a contract that we are working out through General Services, or I should say in conjunction with General Services for repair and maintenance of equipment.

Mr. EVINS. Do you have a figure on how much that is outside of medicine?

Mr. GLEASON. I believe it runs $40,000 or $50,000 a year.

Mr. SHYTLE. That would be on one large computer.

Mr. EVINS. How many do you have?

Mr. MONK. Two.

Mr. EVINS. That is $80,000.

Mr. MONK. On the other equipment the servicing is included in the rental.

Mr. EVINS. Can you tell me how much you pay for servicing after you buy the equipment?

Mr. MONK. $85,000.

Mr. EVINS. And Dr. Middleton pays $1,210,000——

Mr. BAKER. That is $1,210,000 for all medical programs.

Mr. EVINS. That is $1,295,000 you are paying these machinery companies on your payroll every year.

Mr. HANSMAN. The $1,210,000 is rental.

Mr. EVINS. I didn't want that figure. I wanted the figure you pay after you bought the equipment.

You are paying $85,000 for purchasing in the other department. How much are you paying in the Medical Department after you have bought the equipment?

Mr. DRIVER. They haven't bought any.

Mr. HANSMAN. The only computer—and it is a small computer owned by the Department of Medicine and Surgery at the present time—one IBM 1620 located in our research program in Omaha.

Mr. EVINS. It is wonderful to have it, but how much does it cost you after you have bought it?

Mr. HANSMAN. About $1,000 a year for maintenance service.

Mr. EVINS. I am for your program but this is the one that I don't like. This payment after you have bought it.

Mr. GLEASON. I will tell you why it is advantageous to us if I might, Mr. Evins. Once you have purchased it and entered into a contract with these companies, when you stop to realize the intricacies of one of these machines—if you have seen them, and I am sure you have—this is a brain child of men and 2 hours a day we receive maintenance on all of our equipment, in order to assure us of continuous running time from there on. We hope to effect great savings by putting all of these together into one data management department. If we were to try to take one of our personnel or two of them to learn the intricacies of these machines, it would take years, Mr. Evins.

Mr. EVINS. There are only one or two manufacturers of these computors in the country and when all of the Government agencies buy them you can soon see how much they are on the Government payroll for.

Mr. DRIVER. These contracts are not negotiated by the individual agencies. These contracts are and will be negotiated by the General Services Administration.

Mr. EVINS. We talk to them, then?

Mr. GLEASON. That is why we are working in conjunction with them. If we require 2 hours maintenance time a day then there must be other departments that are using the same type of equipment.

REMOVAL OF LIMITATION ON EMPLOYEE TRAVEL

Mr. THOMAS. Gentlemen, may I call your attention to page 19–10 and the question of employee travel. This is not patient travel, but employee travel. It is suggested it be removed. I quote this language and this is what I referred to this morning.

> Release of these funds for individual emergencies, often involving allotment of only a few dollars, generally necessitate a long-distance telephone request from the hospital to the area medical office, dispatch to the hospital of a confirmatory teletype citing allotment amount, allotment serial number and appropriation symbol * * *.

DETERMINATION OF EQUIPMENT NEEDS

You are adopting a new rule here which doesn't exactly ring any bell as far as I am concerned on determination of replacement needs of equipment. (Reading:)

> A new system was developed to determine by fiscal year, those equipment items which should be replaced in accordance with prescribed equipment-replacement standards (equipment life expectancy tables) and equipment-use standards. Annual financing needs then were computed by repricing items to reflect current replacement costs. These data provided the basis for the agency's budget estimate for equipment replacement.

Do you work these out with the Bureau of the Budget?

Mr. GLEASON. That is right.

Mr. THOMAS. Isn't each hospital manager a far better judge of the quality and condition of a piece of equipment, and doesn't he know its needs best?

Mr. BAKER. We rely upon the manager to make final determination. The time factor alone is not sufficient to justify the replacement. He

has to evaluate each piece of equipment when the standard life expectancy time arrives to determine whether or not it can still continue to be used and if it can he should not replace it.

Mr. THOMAS. You are placing a terrible burden on him to do that. He can stand on one foot and do that in 3 minutes every day in the week. He is in touch with his staff people and they can talk about these items. "This machine is getting old, it is 7 or 10 years of age. I think I can repair it for another 6 months." But he has to go through an area medical officer and that slows him down 6 or 7 months and then he has to come up to Washington.

Mr. BAKER. We need that to prove to the Bureau of the Budget how much we require in the way of financial support.

Mr. THOMAS. Never let it be said that the old human mind ever stands still. It is always figuring something out. Next year we will have a little item for increase in employment and that is it. We have to have a group over here to work out these standards.

Excuse me. Go ahead, Mr. Wise.

Mr. WISE. Mr. Chairman, before we went into this system——

Mr. THOMAS. You don't mean to say you are into it already? We are talking about 1964. Are you in here now?

Mr. BAKER. Yes, sir. You gave us $9 million for this year, sir, to apply to the equipment replacement backlog.

Mr. THOMAS. You must have given us a little chloroform.

Mr. WISE. This has enabled us to better assess what is needed and be able to replace equipment——

Mr. THOMAS. Who is "us" now, who is going to do all this? Is it the standards you are laying down or the individual hospital manager who is responsible for the day-to-day operation of that loss from equipment right on up to the top roof?

Mr. WISE. Yes, sir; and he plays the most important part in the picture, but this enables us to get the right money to the hospital at the right time.

Mr. GLEASON. I might recall the original statement, Mr. Chairman. If the committee and the Congress grants us the $9 million we are requesting this year, it will reduce our backlog on equipment to less than $1 million for next year.

Mr. THOMAS. Where is that figure of $9 million?

Mr. BAKER. It is a part of our total equipment figure of roughly $18 million, sir.

Mr. THOMAS. Where is the $9 million? That is under "Other objects"?

Well, we will get around to that in due time, but I don't recognize that figure of $9 million.

Mr. BAKER. It is part of the total equipment cost.

Mr. THOMAS. Eighteen is twice as big as nine and therefore nine is in there?

Mr. GLEASON. You gave it to us last year and if we get the $9 million this year, then the total backlog equipment needs will be reduced to less than $1 million.

Medical Administration and Miscellaneous Operating Expenses

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	9,092	9,952	10,889
	Positions other than permanent	185	215	215
	Other personnel compensation	14	10	87
	Total personnel compensation	9,291	10,177	11,191
12	Personnel benefits	672	733	807
21	Travel and transportation of persons	1,315	1,554	1,660
22	Transportation of things	37	59	40
23	Rent, communications, and utilities	209	165	162
24	Printing and reproduction	181	217	216
25	Other services	652	740	665
26	Supplies and materials	296	331	191
31	Equipment	511	67	50
	Total costs	13,164	14,043	14,982
	Change in selected resources	53	−50	
	Total obligations	13,218	13,993	14,982

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	1,070	1,156	1,177
Full-time equivalent of other positions	10	11	11
Average number of all employees	1,029	1,068	1,113
Number of employees at end of year	1,597	1,650	1,685
Average GS grade	9.3	9.3	9.3
Average GS salary	$8,223	$8,752	$8,827
Average salary, grades established by 38 U.S.C. 4103	$15,184	$16,552	$16,563
Average salary of ungraded positions	$3,572	$3,572	$3,572

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
Operating costs, funded:			
1. Medical, hospital, and domiciliary administration	9,491	10,519	11,490
2. Administration of construction program	1,630	1,707	1,817
3. Medical education and training	1,532	1,750	1,625
Total operating costs, funded	12,653	13,976	14,932
Capital outlay:			
1. Medical, hospital, and domiciliary administration	335	41	38
2. Administration of construction program	24	26	12
3. Medical education and training	152	----------	----------
Total capital outlay	511	67	50
Total program costs, funded	13,164	14,043	14,982
Change in selected resources [1]	53	−50	----------
Total obligations	13,218	13,993	14,982
Financing:			
Comparative transfers to other accounts	27,856	16	----------
Unobligated balance brought forward (−)	−15	−16	----------
Unobligated balance carried forward	16	----------	----------
Unobligated balance lapsing	2,767	----------	----------
New obligational authority	43,842	13,993	14,982
New obligational authority:			
Appropriation	43,876	13,772	14,982
Transferred to "Operating expenses, Public Building Service," General Services Administration (75 Stat. 353) (−)	−35	----------	----------
Appropriation (adjusted)	43,842	13,772	14,982
Proposed supplemental due to pay increases	----------	221	----------

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders: 1961, $128,000 (1962 adjustments—$1,000; 1962, $180,000; 1963, $130,000; 1964, $130,000.

Mr. THOMAS. Mr. Administrator, let's put your very fine table on 20–1 in the record.

(The table referred to follows:)

Medical Administration and Miscellaneous Operating Expenses

Cost summary by object

	Fiscal year 1962 actual	Fiscal year 1963 estimate	2 additional workdays	Public Law 87-793 and within-grade increases	Program changes	Fiscal year 1964 estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment:							
Medical administration	854	899			+38	937	+38
Assistant Administrator for Construction	166	160			+7	167	+7
Education and training							
Total	1,020	1,059			+45	1,104	+45
Consultants	(9)	(11)				(11)	
Average payroll cost	$9,767	$10,302	+$78	+$562	−$74	$10,868	+$566
Costs by activity:							
Medical administration	9,826,234	10,560,000	+71,000	+526,000	+371,000	11,528,000	+968,000
Assistant Administrator for Construction	1,653,996	1,733,000	+11,000	+70,000	+15,000	1,829,000	+96,000
Education and training	1,683,999	1,750,000			−125,000	1,625,000	−125,000
Total	13,164,229	14,043,000	+82,000	+596,000	+261,000	14,982,000	+939,000
Costs by object:							
11 Personnel compensation	9,290,693	10,177,000	+77,000	+555,000	+382,000	11,191,000	+1,014,000
Consultants	(180,275)	(215,000)				(215,000)	
12 Personnel benefits	671,707	733,000	+5,000	+41,000	+28,000	807,000	+74,000
21 Travel and transportation of persons	1,315,224	1,554,000			+106,000	1,660,000	+106,000
22 Transportation of things	36,686	59,000			−19,000	40,000	−19,000
23 Rent, communication, and utilities	209,243	165,000			−3,000	162,000	−3,000
24 Printing and reproduction	181,222	217,000			−1,000	216,000	−1,000
25 Other services	652,430	740,000			−75,000	665,000	−75,000
26 Supplies and materials	296,179	331,000			−140,000	191,000	−140,000
31 Equipment	510,845	67,000			−17,000	50,000	−17,000
Total gross costs	13,164,229	14,043,000	+82,000	+596,000	+261,000	14,982,000	+939,000
Cost adjusted for other years	+53,523	−50,000			+50,000		+50,000
Total obligations	13,217,752	13,993,000	+82,000	+596,000	+311,000	14,982,000	+989,000
Transferred to "Operating expenses, Public Building Services, GSA," Public Law 87-141	+34,820						
Unobligated balance no longer available	+123,928						
Less proposed supplemental for pay raise		−221,000		+221,000			+221,000
Total appropriation or estimate	13,376,500	13,772,000	+82,000	+817,000	+311,000	14,982,000	+1,210,000

Mr. THOMAS. This is medical administration, gentlemen. Medical administration for last year, 854 jobs. It goes up this year 45, which makes it 899, and 38 for next year to 937.

That is medical administration.

Let's go to the Assistant Administrator for Construction. Is this the 1,700 or 9,000?

Mr. BAKER. 1,700.

Mr. THOMAS. We also have education and training. Where is the figure for that?

Mr. BAKER. We have no employees in there, sir. That is for payment of tuition and travel.

Mr. THOMAS. This is purely education and there are no employees there.

We will have to turn over to the next sheet to get the dollars.

Mr. BAKER. Down below.

MEDICAL EDUCATION AND TRAINING

Mr. THOMAS. Education and training is $1,683,000 in 1962 against $1,750,000 in 1963, and $1,625,000 in 1964.

Your total for travel and transportation of persons is $1,315,000 last year and $1,554,000 for this year. It goes up $106,000 in 1964. That is mostly education and training?

Mr. BAKER. Principally the increased rates that were put into effect.

Mr. THOMAS. No, they put those in effect last year. That will reflect in your fiscal year 1963 budget and this is a $106,000 increase 1964 over 1963. You have already accounted for that increase.

Mr. BAKER. That is due to the increase in education and training travel from 1963 to 1964, principally.

Mr. THOMAS. How many are we going to educate and travel this year? These are all doctors, nurses, technicians, and employees of the Veterans' Administration Medical Department?

Mr. BAKER. That is right.

We plan to pay tuition for medical and dental residents in 1964, 218, which is an increase of 11 over the current year.

We plan to furnish lectures for medical and dental residents, 1,211, which is an increase of 28 over the current year. That is in residency training. That is the tuition for employees and fees for the lecturers.

Mr. THOMAS. What is the purpose of the travel? Are these interns or what?

Mr. BAKER. Residents.

RESIDENTS AND INTERNS

Mr. THOMAS. Let's get over to the terminology and get that straight. A resident is a doctor who has already been licensed to practice?

Dr. MIDDLETON. And has his internship.

Mr. THOMAS. And he is going to spend 1 or 2 years with you?

Dr. MIDDLETON. Three to five years for specialization.

Mr. THOMAS. How long he stays is entirely voluntary as far as he is concerned?

Dr. MIDDLETON. It is a requirement of the specialty board that determines the length of the residency. For general purposes, 3 years is the rule. There are some that extend beyond that.

Mr. THOMAS. What do you pay these residents?

Mr. BAKER. About half of the yearly rate for a full time.

Mr. WISE. The average now, Mr. Thomas, the rate depends on the year of training, but the average of roughly 3,100 medical residents in the system is $5,052 a year.

Mr. THOMAS. Is that for the first, second, or third year?

Mr. WISE. That is the average for all of them, sir.

Mr. THOMAS. What does it figure for the first year?

Mr. UNDERWOOD. The first year is $4,020 for junior grade. Intermediate grade is $4,735. Senior grade, first year, is $5,575. Second is $6,120. Third is $7,035.

Mr. THOMAS. What do you pay your interns?

Mr. UNDERWOOD. $3,650.

Mr. THOMAS. How many of those do you have and how many residents do you have?

Dr. MIDDLETON. We have 120 interns and we have just about 3,100 residents.

Mr. THOMAS. How long do your residents stay?

Dr. MIDDLETON. Three years.

Mr. THOMAS. Then they are gone from you?

Dr. MIDDLETON. Those we do not recruit.

Mr. THOMAS. I am trying to figure out how many of them stay with you after you help them finish their education.

Dr. MIDDLETON. It varies with the subject, but overall——

Mr. THOMAS. Overall it doesn't amount to 10 percent, does it?

Dr. MIDDLETON. It is about 12 to 15 percent for a given year.

Mr. THOMAS. How about your interns?

Dr. MIDDLETON. Interns may or may not stay on for residency, or may come into staff positions.

Mr. THOMAS. You have how many interns for the fiscal years 1964?

Dr. MIDDLETON. 120.

Mr. THOMAS. How many did you have for fiscal year 1963? My heart goes out to those boys who are working for $250 a month and you have somebody down in the laundry room who you pay $300 a month. It doesn't make sense. They work long, hard hours, and they have already had a hard enough time.

Mr. GLEASON. Doctor, wouldn't it be a small percentage of interns we would ask to stay on for residency?

Dr. MIDDLETON. It is entirely at their own selection. It would vary from year to year.

Mr. THOMAS. I am just wondering how effective is your education program for the simple reason you don't keep them.

What part of your older staff participates in this?

Mr. GLEASON. If we don't keep them, Mr. Thomas, the medical profession in the country gains.

PERCENT OF RESIDENTS TRAINED

Mr. THOMAS. You are not in the business of educating the medical profession. That is not your job.

Mr. GLEASON. It is our job though, Mr. Chairman, to assist in the medical education of the country with our large hospital system. It is the largest system in the country. One out of every three new physicians each year are trained by the Veterans' Administration through the residency program.

Dr. MIDDLETON. Eleven percent of all residents in training in this country today, sir, are in Veterans' Administration.

Mr. WISE. And the real value is we have them for those 3 years there with us.

Mr. THOMAS. And at the end of this residency they go to private practice?

Dr. MIDDLETON. Twelve to fifteen percent stay with us.

Mr. THOMAS. Didn't we use a figure in here a couple years ago of 10 percent rather than 12 or 15 percent?

Dr. MIDDLETON. I did not, sir. It has been higher than that in the past.

Mr. JONAS. Would you yield there?

Mr. THOMAS. Yes.

TURNOVER IN PHYSICIAN POSITIONS

Mr. JONAS. You can't do that ad infinitum. You have to replace people. You are losing some.

Dr. MIDDLETON. We do have an attrition in our staff.

Mr. JONAS. What is that rate?

Mr. UNDERWOOD. The turnover rate for physicians is 11.8. That is title 38.

Mr. GLEASON. That is about 12 percent.

Mr. UNDERWOOD. 11.8.

Mr. THOMAS. That is your older doctors or everybody?

Dr. MIDDLETON. Everyone.

Mr. UNDERWOOD. Physicians under title 38. Regular physicians.

Mr. THOMAS. You lose 85 to 90 percent of your residents.

Mr. UNDERWOOD. Most of the residents graduate and go out and practice or do whatever they plan to do—the figure I gave is for full-time regular physicians.

Mr. THOMAS. What was the turnover, again?

Mr. UNDERWOOD. 11.8 for this last year.

Mr. GLEASON. That is about 1 percent a month.

Mr. THOMAS. That is not bad.

Mr. UNDERWOOD. Considerably below our general average.

Mr. JONAS. How do you hold these doctors?

Dr. MIDDLETON. We hold them because of the quality of medicine they can practice. They are practicing medicine as they prefer to practice it. The research and education outlets of course are a tremendous incentive for them to continue in this relationship.

Mr. GLEASON. And also because of the close association we have with the medical schools, Mr. Jonas.

Mr. JONAS. You don't have these waiting rooms full of patients clamoring and crying for medical service, though, and night calls and all of the other things.

Dr. MIDDLETON. They are on duty 24 hours a day, but they do not have these deterrents that you mentioned.

Mr. JONAS. Conditions are better.

Dr. MIDDLETON. Their professional associations, their ability to exchange with their fellows and to participate in scientific and educational activities and professional meetings.

Mr. THOMAS. Your travel costs show a considerable increase.

EDUCATIONAL ASSIGNMENTS

Mr. JONAS. How long do these fellowships last?

Dr. MIDDLETON. You are speaking of the residences?

Mr. JONAS. Yes.

Dr. MIDDLETON. They are ordinarily 3 years.

Mr. JONAS. No; I don't mean that. I mean when you send them over to take a refresher course.

Dr. MIDDLETON. Refresher courses are very infrequently selected outside of the Veterans' Administration and usually for a period of weeks.

Mr. JONAS. I assumed this big item for travel was to pay travel expenses for your people in residence who go off and take courses.

Dr. MIDDLETON. That is right.

Mr. JONAS. How long is the average course?

Dr. MIDDLETON. Up to 6 months and the limitation is 1 year. For example, a person specializing in ophthalmology may be required to have a year's course in physiology and anatomy of the eye.

Mr. JONAS. You do not send his family too?

Dr. MIDDLETON. No, sir.

Mr. JONAS. Only the individual?

Dr. MIDDLETON. That is right.

Mr. THOMAS. How many doctors, interns, and residents do you have throughout the system?

Dr. MIDDLETON. We have 4,992 full-time physicians. We have about 3,100 residents. We have just over 1—120 I said—interns.

Mr. THOMAS. The number going out of the particular installation to study is a nominal figure?

Dr. MIDDLETON. Yes; compared to the total figure.

Mr. THOMAS. Why is the travel so much then?

Dr. MIDDLETON. The meetings, conferences within the Veterans' Administration and outside the Veterans' Administration. As a matter of fact, there is a standing rule——

Mr. THOMAS. Is it mostly local traveling?

Dr. MIDDLETON. It may be to a national meeting, sir, but there is a standing rule we do not send our staff to meetings outside the agency in which they are not actually participants. Now, this is a handicap in that the younger men without financial resources cannot have the advantage.

Mr. THOMAS. Give us some idea of how you spend your travel money. If only a nominal number of your staff of 8,000 doctors ever get out of their installation, why is your travel so high?

Mr. BAKER. Page 20–17 shows the number of staff making these trips which would be 8,664 trips at $113 average cost per trip.

Mr. THOMAS. Then they are evidently out of the installation.

Mr. BAKER. But within the VA. Seminars, conferences, and so forth within the Veterans' Administration for purposes of group study, lectures, and discussions.

Mr. THOMAS. Do you go from one town to another to the Veterans' Administration installations?

Mr. MIDDLETON. Yes, sir. At the present time we have just completed one on pulmonary diseases in Cincinnati, for example, and we bring men from all over the country.

Mr. JONAS. How often do you have these conferences and seminars? How many will a given resident in one of your hospital's attend in a year?

Dr. MIDDLETON. Unless he is actively participating, Mr. Jonas, he is not entitled to go to a non-VA meeting, which as I say is a handicap.

Mr. JONAS. I am talking about the meetings within the Veterans' Administration itself.

Dr. MIDDLETON. In these meetings within the Veterans' Administration we will have the various departments represented by chiefs of staff meetings, chiefs of various services, and on an average a resident would not go more than three times a year or occasionally four times a year, locally or removed, in the interest of a special program.

Mr. GLEASON. At page 20–18 the third and fourth paragraphs there may give you some insight into it.

Mr. JONAS. I was trying to find some justification for $1.6 million worth of travel.

MEDICAL ADMINISTRATION PROGRAM HIGHLIGHTS

Mr. THOMAS. Let us put page 20–5 in the record.

(The page referred to follows:)

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.

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 1962 in 170 Veterans' Administration hospitals and in 18 Veterans' Administration domiciliaries, with average operating beds of 120,976 and 16,866, and average daily patient or member loads of 110,884 and 16,400, respectively. Outpatient medical and dental services for veterans with service-connected disabilities were provided by 93 clinics and 16 subclinics during fiscal year 1962 and by physicians and dentists participating in the hometown care plan. Outpatient services for fiscal year 1962 consisted of more than 3,656,000 medical visits, 36,000 dental examinations and 28,000 dental treatments.

More than 135,000 employees will be engaged in the conduct of agency medical programs in the current 1963 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 at the close of the current fiscal year totals 922 employees or less than two-thirds 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.

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 psysical layout, the type of service being rendered, as well as criticisms and recommendations.

During the fiscal year 1963, staffing of area medical offices will be brought to levels commensurate with their delegated responsibilities of exercising direct line of authority over hospitals, domiciliaries, and clinics within their respective geographic areas. These changes are necessary to achieve better balance in the administration of agency medical programs and to resolve operating problems of individual installations more quickly.

Mr. THOMAS. Gentlemen, let me refer you to this paragraph. (Reading:)

The medical care and treatment programs were conducted during fiscal year 1962 in 170 Veterans' Administration hospitals and in 18 Veterans' Administration domiciliaries, with average operating beds of 120,976 and 16,866, and average daily patient or member loads of 110,884 and 16,400, respectively. Outpatient medical and dental services for veterans with service-connected disabilities were provided by 93 clinics and 16 subclinics during fiscal year 1962 and by physicians and dentists participating in the hometown care plan. Outpatient services for fiscal year 1962 consisted of more than 3,656,000 medical visits, 36,000 dental examinations and 28,000 dental treatment.

MEDICAL ADMINISTRATION COSTS

Let me refer you to this table at 20–4. The sum and substance of it is that there is an increase over last year of $968,000. Salary increases and within grades account for $526,000, two extra work days cost $71,000, and so forth. The table speaks for itself.

We really get a breakdown of the other objects at page 20–11.

Travel and transportation of persons shows a $27,000 increase.

Transportation of things, $22,000 in 1962, $40,000 in 1963, and $38,000 in 1964.

Rents and utilities go up $1,000. There is no change in printing and reproducing, $196,000. Why is that figure so large? This is separate now from the training program. That is where your big money in travel is.

Medical administration, $647,000 for travel itself.

Supplies and materials go up $3,000.

NUMBER OF PAMPHLETS, DOCUMENTS, FORMS, ETC., PRINTED

Why so much on printing and reproduction? How many pamphlets do you print?

Mr. GORMAN. In 1962 the number of publications printed for DMS was as follows: 225 circulars, 145 operational letters and 215 changes to manuals.

Mr. THOMAS. What is the total?

Mr. GORMAN. 585.

Mr. THOMAS. What is the circulation?

Mr. GORMAN. The circulation is to all hospitals and domiciliaries to the point they know what is expected of them in order to carry out the wishes of the Congress. These are primarily for internal use in VA.

Mr. THOMAS. 585 documents.

Mr. GORMAN. That is right, sir.

Mr. THOMAS. How many copies altogether?

Mr. GORMAN. If we add in the forms and form letters we have in that Department, we have quite a few. A total of 2,856 different forms and form letters in the Department of Medicine and Surgery.

Mr. THOMAS. You don't have a very broad circulation. How many copies of these 585 documents do you print?

Mr. GORMAN. The 585 documents are basically directive material from central office to elements in our field installations so that they can carry out the intent of the Congress.

Mr. THOMAS. I thought we had the area medical office doing that. How many do you send out to the area medical people?

Mr. GORMAN. I would say we send out at least 260 copies of pertinent materials.

Mr. THOMAS. What is the total number of documents printed throughout all departments of the Veterans' Administration? If you have 585 in Medicine, how many do we have in Veterans' Benefits?

Mr. GORMAN. We break down Department of Veterans' Benefits issues into forms, form letters, and publications. Now on publications, we break them into manuals, circulars, bulletins, and so forth, which I will give you if you want, sir.

Mr. GLEASON. How many different forms are printed throughout the Department of Medicine and Surgery or for the agency, whichever the chairman wants—there must be 50,000 to 60,000 of form A, 30,000 of some other form.

How many pieces do we actually print and distribute?

Mr. GORMAN. Take this basic application for hospitalization, 10–P–10. In 1962 we printed 1,715,000 sheets of 10–P–10.

Then we also had to print out a medication form in a volume of 23,761,000 sheets. Then we printed 12 million prescription forms, over 2 million locater cards, and almost 3 million records of hospitalization.

We had identification tags printed to the extent of 1,248,500.

Social service cards printed amounted to 1,652,000.

Mr. THOMAS. What does it all total?

Mr. GORMAN. I do not have that for the agency.

Mr. THOMAS. For Medicine and Surgery you print 585 different documents.

Mr. GORMAN. Publications; yes, sir—directive material.

Mr. THOMAS. What was it for the Veterans Benefits?

Mr. GORMAN. For Veterans Benefits, sir, it was roughly about—well, we can get the accurate figure if we add in the technical bulletins, manuals——

Mr. THOMAS. All of them. Wrap it up in one figure.

Mr. GORMAN. 300.

Mr. THOMAS. Is that the figure we used yesterday?

Mr. GORMAN. We used about 400 publications yesterday, I believe.

Mr. THOMAS. Now you are cutting it down to 300?

Mr. GORMAN. I will clarify it later, sir.

Mr. THOMAS. Which is the best guess?

Mr. GORMAN. 300, sir.

Mr. THOMAS. How many more? How about Insurance?

Mr. GORMAN. Under Insurance we——

Mr. THOMAS. You used the figure of 500 yesterday, I am told, rather than 400. Do you recall what you used?

Mr. GORMAN. Well, sir, when we talk about publications we refer to many different issues. Specifically, what we refer to publications in our index to publications we consider all administrative issues, including Administrator's decisions——

Mr. THOMAS. Call it what you want to, it is printing and binding?

Mr. GORMAN. Yes, sir.

Mr. THOMAS. You used 500 yesterday. Five hundred for Veterans Benefits. Five hundred eighty-five for Medicine and Surgery. What do you have for Insurance?

Mr. GORMAN. About 300.

Mr. THOMAS. About 300?

Mr. GORMAN. That is right, sir.

Mr. THOMAS. Are any other departments doing any printing and binding?

Mr. DRIVER. On top of that there are 8,736 forms and form letters, Mr. Thomas.

Mr. THOMAS. At this point in the record insert a statement that breaks out your publications. Can you do that?

Mr. GORMAN. Yes, sir.

(The information supplied follows:)

Our Index to VA Publications list the following administrative issues:

Administrator's decisions	Instructions regarding public laws
Bulletins	Manuals
Catalogs	Operating instructions
Circulars	Pamphlets
Interim issues	Regulations

These publications consist of 1,508 basic issues.

Issued as agencywide use publications	371
Issued by the Department of Veterans' Benefits to implement its programs	488
Issued by the Department of Insurance to implement its programs	388
Issued by the Department of Medicine and Surgery to implement its programs	261
Total	1,508

In addition to the publications listed in the index, the Department of Medicine and Surgery issued the following:

Circulars	225
Operating letters	140
Total	365

The total Department of Medicine and Surgery issues were 261 indexed and 365 unindexed items or a total of 626.

TOTAL VA PRINTING COST

Mr. THOMAS. Can you give us a wrap-up figure now for your total cost of printing and binding throughout the agency? We used that figure yesterday. What was it?

Mr. MONK. $3,213,864 for fiscal year 1964.

Mr. THOMAS. That is for all agencies and departments of the Veterans' Administration?

Mr. MONK. Yes, sir.

Mr. GLEASON. Mr. Chairman, many of those forms are printed in quantities in excess of 1 million copies a year.

Mr. THOMAS. Is it mandatory, Mr. Administrator, that you have all those?

Mr. GLEASON. Yes, it is. Just like the identification tags. We have to have one affixed to each bed while the patient is in our hospital.

Mr. THOMAS. Did you have a cost analysis made of the wastepaper baskets in all your installations?

Mr. GLEASON. Mr. Chairman, yesterday we mentioned that we revised about 328 of the forms and then it was necessary for us to put about 221 new forms into operation.

Mr. GORMAN. May I add we print about 50 million premium notices a year.

Mr. GLEASON. This is the sort of thing the chairman wants to know. For example, 50 million forms for insurance premiums alone.

EDUCATION AND TRAINING

Mr. THOMAS. Gentlemen, look at page 20–13. This is education and training which we have touched on before. Put this page in the record.

(The page referred to follows:)

Education and Training

Activity and object summary

	Fiscal year 1962 actual	Fiscal year 1963 estimate	Program changes			Fiscal year 1964 estimate	Increase (+) or decrease (−), 1964 over 1963
			Residency training	Postgraduate and inservice training	Medical illustration		
Costs by activity:							
Residency training	$121,022	$164,000	+$6,000			$170,000	+$6,000
Postgraduate and inservice training	1,112,794	1,361,000		+$94,000		1,455,000	+94,000
Medical illustration	450,183	225,000			−$225,000		−225,000
Total	1,683,999	1,750,000	+6,000	+94,000	−225,000	1,625,000	−125,000
Costs by object:							
21 Travel and transportation of persons	784,510	900,000		+79,000		979,000	+79,000
22 Transportation of things	12,084	17,000			−17,000		−17,000
23 Rents, communications, and utilities	5,550	4,000			−4,000		−4,000
24 Printing and reproduction	410	1,000			−1,000		−1,000
25 Other services	508,405	585,000	+6,000	+15,000	−60,000	546,000	−39,000
26 Supplies and materials	221,624	243,000			−143,000	100,000	−143,000
31 Equipment	151,416						
Total, gross costs	1,683,999	1,750,000	+6,000	+94,000	−225,000	1,625,000	−125,000

Mr. THOMAS. Residency training is $170,000; your postgraduate and service training, $1,455,000. Your travel cost in 1964 and 1963 will be about $979,000 against $784,000 for last year. That is a pretty good table.

Can't we save about half of this money here and still have a good, effective program?

Mr. GLEASON. Mr. Chairman, if we can save it we will be glad to let you have it back if we don't use it.

MEDICAL ADMINISTRATION

Mr. EVINS. Gentlemen, our role on this side of the table is to bring about economy and cut down costs. I think we should be able to point out a few of the good things here.

I have been impressed with this statement. Of the 135,000 employees in the Medical Department, only 922 or less than two-thirds of 1 percent are employed in the medical administrative programs. This represents one of the lowest ratios of the administrative cost to the total program in the Federal Government.

Then on another page they say here the administrative staff of 937 requested for 1964 is 9 percent less than the number of staff, 1,032 for fiscal year 1955.

The number is down to two-thirds of 1 percent of the total employment in medical programs.

Mr. THOMAS. There are 9,000 doctors and at no time do you have more than 111,000 patients, so that means 1 doctor takes care of 12 patients on a daily basis. If you go to any private practitioner and get there at 4 o'clock he only has 30 patients waiting. He has already seen 20. They tell me a private practitioner will see 50 or 60 patients a day.

Dr. MIDDLETON. He will just see them, sir.

Mr. DRIVER. Not in a hospital.

Mr. THOMAS. My doctor sees me and about 40 more.

Mr. DRIVER. He is just taking character references.

MEDICAL AND PROSTHETIC RESEARCH

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	14,559	17,185	19,070
	Positions other than permanent	878	1,009	1,078
	Other personnel compensation	55	59	204
	Total personnel compensation	15,492	18,253	20,352
12	Personnel benefits	1,112	1,313	1,462
21	Travel and transportation of persons:			
	Employees	236	291	304
	Beneficiaries	1	2	2
22	Transportation of things	43	45	47
23	Rent, communications, and utilities	52	54	56
24	Printing and reproduction	39	48	53
25	Other services	2,390	2,407	2,469
26	Supplies and materials	3,237	3,300	3,340
31	Equipment	4,812	4,620	5,327
32	Lands and structures	322	325	330
	Total costs	27,735	30,658	33,742
	Change in selected resources	120	−142	
	Total obligations	27,856	30,516	33,742

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	2,599	2,938	3,117
Full-time equivalent of other positions	137	157	167
Average number of all employees	2,524	2,851	3,032
Number of employees at end of year	3,308	3,483	3,816
Average GS grade	7.0	7.0	7.0
Average GS salary	$6,124	$6,485	$6,531
Average salary of ungraded positions	$4,692	$4,693	$4,694

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
Operating costs, funded:			
1. Medical research	21,525	24,580	26,846
2. Prosthetic research	1,076	1,133	1,239
Total operating costs, funded	22,601	25,713	28,085
Capital outlay:			
1. Medical research	5,120	4,920	5,621
2. Prosthetic research	14	25	36
Total capital outlay	5,134	4,945	5,657
Total program costs, funded	27,735	30,658	33,742
Change in selected resources [1]	120	−142	
Total obligations	27,856	30,516	33,742
Financing:			
Comparative transfer from other account (−)	−27,856	−16	
New obligational authority (appropriation)		30,500	33,742

[1] Selected resources as of June 30 are as follows:

	1961	1962 adjustments	1962	1963	1964
Unpaid undelivered orders	653	7	780	638	638
Advances	45	−45			
Total selected resources	698	−38	780	636	638

Mr. THOMAS. Let's take a look at medical and prosthetic research. We will include in the record page 21–1.

(The page referred to follows:)

Medical and Prosthetic Research

Cost summary by object

	Fiscal year 1962 actual	Fiscal year 1963 estimated	2 additional workdays	Public Law 87-793 and within-grade increases	Program changes	Fiscal year 1964 estimated	Increase (+) or decrease (−), 1964 over 1963
Average employment:							
Medical research	2,477	2,800			+176	2,976	+176
Prosthetic research	30	33			+3	36	+3
Total	2,507	2,833			+179	3,012	+179
Consultants	(36)	(36)				(36)	
Average payroll cost	$6,623	$6,681	+$53	+$298	−$15	$7,242	+$336
Costs by activity:							
Medical research	26,644,755	29,500,000	+186,000	+829,000	+1,952,000	32,467,000	+2,967,000
Prosthetic research	1,090,560	1,157,863	+2,000	+15,000	+100,137	1,275,000	+117,137
Total	27,735,315	30,657,863	+188,000	+844,000	+2,052,137	33,742,000	+3,084,137
Costs by object:							
11 Personnel compensation	15,492,185	18,253,000	+140,000	+789,000	+1,170,000	20,352,000	+2,099,000
12 Personnel benefits	1,112,188	1,313,000	+10,000	+55,000	+84,000	1,462,000	+149,000
21 Travel and transportation of persons	236,649	293,000	+2,000		+11,000	306,000	+13,000
Employee	(235,757)	(291,000)	(+2,000)		(+11,000)	(304,000)	(+13,000)
Beneficiary	(892)	(2,000)				(2,000)	
22 Transportation of things	43,226	45,000			+2,000	47,000	+2,000
23 Rent, communications and utilities	51,565	54,000			+2,000	56,000	+2,000
24 Printing and reproduction	39,022	48,000			+5,000	53,000	+5,000
25 Other services	2,389,720	2,406,863	+12,000		+50,137	2,469,000	+62,137
26 Supplies and materials	3,236,841	3,300,000	+24,000		+16,000	3,340,000	+40,000
31 Equipment for existing facilities	4,812,169	3,855,000			+26,000	3,881,000	+26,000
Equipment for construction projects		765,000			+681,000	1,446,000	+681,000
32 Lands and structures	321,750	325,000			+5,000	330,000	+5,000
Total gross costs	27,735,315	30,657,863	+188,000	+844,000	+2,052,137	33,742,000	+3,084,137
Cost adjusted for other years	+120,307	−142,000			+142,000		+142,000
Unobligated balance brought forward	−14,696	−15,863			+15,863		+15,863
Unobligated balance carried forward	+15,863						
Unobligated balance no longer available	+2,643,211						
Total appropriation or estimate	30,500,000	30,500,000	+188,000	+844,000	+2,210,000	33,742,000	+3,242,000

Mr. THOMAS. This is medical and prosthetic research. Here is a good breakdown. This is average employment in medical research; 2,477 people in 1962. This year it goes up to 2,800 and in 1964 it will be 2,976. Where are these people located?

Dr. MIDDLETON. In 140 hospitals doing research, sir.

Mr. THOMAS. Now, I notice a little further over here you talk about hiring some private researchers. Do you mean by that you are going to get some Ph. D.'s in physics and Ph. D.'s in organic chemistry, some Ph. D.'s in engineering and mathematics?

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. How many are you getting this year? How many biologists are you getting?

Dr. MIDDLETON. Sir, I do not have a breakdown of their skills.

Mr. THOMAS. You gave a figure a little earlier. Somebody put their hand on it right quick. Where is Mr. Wise? How many of those people are you getting this year?

Mr. WISE. We have the breakout of personnel, Mr. Chairman. Of course, the green sheets give it in broader detail. It is at page 21–16. We give the breakdown between consultants, clinical, and senior medical investigators——

Mr. THOMAS. Just a minute. That is not what I have in mind.

You set them out some place, but I can't put my finger on it, but I remember seeing it.

What about table 21–2? That is not what I was looking for.

Mr. GLEASON. 21–4 may be of interest, Mr. Chairman.

Mr. THOMAS. Let's put this table in the record at 21–2.

(The page referred to follows:)

Employment and object summary

	Fiscal year 1962 actual	Fiscal year 1963 estimate	2 additional workdays	Public Law 87-793 and within-grade increases	Program changes	Fiscal year 1964 estimate	Increase (+) or decrease (−), 1964 over 1963
Average employment	2,477	2,800			+176	2,976	+176
Consultants	(35)	(35)				(35)	
Average payroll cost	$6,603	$6,886	+$53	+$296	−$18	$7,217	+$331
Average employment by activity:							
Medicine	777	878			+56	934	+56
Surgery	361	408			+26	434	+26
Psychiatry	283	330			+21	351	+21
Neurology	89	101			+6	107	+6
Aging	172	195			+12	207	+12
Pulmonary	186	210			+14	224	+14
Radioisotope	379	408			+23	431	+23
Preclinical	211	248			+17	265	+17
Dental	19	22			+1	23	+1
Total	2,477	2,800			+176	2,976	+176
Costs by activity:							
Medicine	$8,403,257	$9,063,000	+$59,000	+$247,000	+$415,000	$9,784,000	+$721,000
Surgery	3,533,737	3,810,000	+27,000	+123,000	+167,000	4,127,000	+317,000
Psychiatry	2,958,678	3,191,000	+22,000	+98,000	+144,000	3,455,000	+264,000
Neurology	1,028,855	1,114,000	+6,000	+33,000	+54,000	1,207,000	+93,000
Aging	1,664,249	1,759,000	+13,000	+58,000	+75,000	1,905,000	+146,000
Pulmonary	1,832,838	1,977,000	+14,000	+66,000	+86,000	2,143,000	+166,000
Radioisotope	3,999,047	4,313,000	+27,000	+123,000	+170,000	4,633,000	+320,000
Preclinical	2,574,151	2,777,000	+17,000	+75,000	+130,000	2,999,000	+222,000
Dental	221,367	272,000	+1,000	+6,000	+14,000	293,000	+21,000
Minor alterations and improvements of facilities	428,576	459,000			+16,000	475,000	+16,000
Equipment for construction projects		765,000			+681,000	1,446,000	+681,000
Total	26,644,755	29,500,000	+186,000	+829,000	+1,952,000	32,467,000	+2,967,000
Costs by object:							
11 Personnel compensation	15,260,686	17,988,000	+138,000	+775,000	+1,139,000	20,040,000	+2,052,000
12 Personnel benefits	1,095,620	1,293,000	+10,000	+54,000	+82,000	1,439,000	+146,000
21 Travel and transportation of persons	225,806	280,000	+2,000		+8,000	290,000	+10,000
22 Transportation of things	42,420	44,000			+2,000	46,0000	+2,000
23 Rent, communications, and utilities	48,627	50,000			+2,000	52,00	+2,000
24 Printing and reproduction	38,446	40,000			+2,000	42,000	+2,000
25 Other services	1,606,983	1,625,000	+12,000		+6,000	1,643,000	+18,000
26 Supplies and materials	3,206,344	3,260,000	+24,000		+10,000	3,294,000	+34,000
31 Equipment for existing facilities	4,798,073	3,830,000			+15,000	3,845,000	+15,000
Equipment for construction projects		765,000			+681,000	1,446,000	+681,000
32 Lands and structures	321,750	325,000			+5,000	330,000	+5,000
Total gross costs	26,644,755	29,500,000	+186,000	+829,000	+1,952,000	32,467,000	+2,967,000

Mr. THOMAS. You don't pay these people as research men. He is a doctor practicing medicine inside the Veterans' Administration installation, isn't he?

Dr. MIDDLETON. No, sir. There are only those physicians who are the clinical investigators, approximately 50, and then there are 5 senior medical investigators, so that these folks are the specialists in the area to which you are referring.

Mr. THOMAS. I want to know where these installations are. They are over here close to your hospitals. Here we are.

Mr. Reporter, put 21–4, 21–5, and 21–6 in the record.

(The pages referred to follow:)

MEDICAL RESEARCH

PROGRAM NOTES

The Veterans' Administration concept of medicine clearly establishes an inseparable relationship among patient care, research, and education. The VA medical research program operates in conjunction with the education and training program in support of the agency's mission of providing the eligible veteran with high quality medical care. Thoroughly competent physicians must be proficient in each of the three related components and those who are so qualified will seek association only with those institutions which provide and encourage adequate outlets for their capabilities. The research program thus aids in recruiting and retaining the most competent physicians.

Although still a young program, VA medical research has paid big dividends in its contributions to scientific knowledge. In addition, the program is a major factor in maintaining the close relationships existent between the VA and the medical schools. Research, however, is not limited to these hospitals and many nonaffiliated hospitals have vigorous programs. In these, too, research is instrumental in attracting physicians of the highest grade and comparably trained bioscientists. The excellence of patient care throughout the VA hospital system is largely an indirect result of the research program.

An impression of the scope of the research program may be given by the following fiscal year 1962 information:

1. Research programs existed in 136 hospitals, 7 regional offices, 3 outpatient clinics, and the Veterans Benefits Office, Washington, D.C. Only 86 of the hospitals were affiliated with medical schools.
2. A total of 7,504 individual research projects were conducted by 5,451 research investigators.
3. Professional and scientific journals published 2,166 articles by VA research investigators.
4. Papers resulting from research which were presented before professional and scientific audiences numbered 3,175.

The high caliber of VA medical research may be illustrated by the following few examples of recent accomplishments:

1. A new operation to increase the blood supply to the heart when a coronary thrombosis has reduced the amount it normally receives has been devised by a VA surgeon at Oteen, N.C. Significant is the fact that this major research accomplishment was achieved by a young VA clinical investigator in the second year of his research training.
2. The existence of an immune reaction to an individual's own tumor has been demonstrated at the VAH, Dallas, Tex., opening the possibility of vaccinating against cancer. This possibility is being explored there and in the VAH, Coral Gables, Fla.
3. A radioisotopic method for measuring blood flow through the brain has been devised at VAC, Los Angeles, Calif. This simplifies the localization of blood vessels which have been blocked and may be amenable to surgical repair.
4. A bedside robot capable of watching 20 to 25 patients simultaneously for changes in any of 8 body functions including blood pressure, pulse, and breathing rate and temperature has been produced through the collaboration of a few physicians at the VAC, Los Angeles, Calif.
5. A blood test for detection of certain types of cancer has been developed at the VAH, Indianapolis, Ind.

6. Tetracyclines and other compounds are being tagged with radioisotopes for therapeutic use in malignancies at the VAH, Omaha, Nebr.

7. A fat which exists in tumor tissues in tenfold the normal amount has been synthesized at VAH, Dallas, Tex. This will permit detailed study of the importance of fats in cancer.

8. The association of pulmonary tumors with scars in the lungs left by previous diseases has been demonstrated at the VAH, West Haven, Conn.

9. The sensory-deprivation studies at Oklahoma City have been utilized in testing aspiring astronauts. These studies of the effects of complete isolation are giving deep insight into the cause and nature of mental disorders and are leading to new approaches to the treatment of schizophrenia.

10. A special spongelike plastic has been successfully substituted for skin in the VAH, Buffalo, N.Y., which is a lifesaving measure in the treatment of burns covering a large portion of the body.

11. In some instances, paralyzed limbs may be activated by properly timed electrical impulses (VAH Hines, Ill.).

12. A new method for replacing human tissues damaged by radiation has been described at VAH, Long Beach, Calif.

13. A portable device for applying heart massage externally as a lifesaving aid has been developed at the VAH, Coral Gables, Fla.

14. Lung cancers are being identified by means of enzyme reactions in 80 percent of previously unclassifiable types as a result of studies in the VAH, Oakland, Calif.

15. A technique for measuring accurately the volume of blood lost into the bowel or during surgery has been developed in VAH, Omaha, Nebr., using radioactively tagged red cells.

16. The relationship between certain malignancies, notably leukemia and a transmissible virus, has been established at VAH, Bronx, N.Y. For this work Dr. Ludwik Gross has received one of six World Health Organization awards for scientific achievement.

17. Elderly individuals have been shown to have much higher protein requirements for the maintenance of good health than young people. (VAC, Los Angeles, Calif.).

18. Insulin has been shown to induce an immunological response in injected individuals and the degree of the response can be determined. (VAH, Bronx, N.Y.)

19. The amount of circulating cholesterol has been substantially reduced and kept low for at least a year and a half by substituting unsaturated fats for solid fats in an appetizing diet (VAC, Los Angeles, Calif.). This work was the subject of a highly complimentary editorial in the New England Journal of Medicine in June 1962.

20. Changes in the lung and bronchial passages due to smoking can revert to normal if smoking is discontinued for 5 or more years (VAH, East Orange, N.J.). This reversal which apparently begins promptly was thought previously not to occur at all.

21. The implantable pacemaker developed to stimulate hearts in which the normal impulse is deficient or absent has been used in the treatment of 40 patients during the past 2 years. Thirty-four of these have been successfully rehabilitated. Followup studies extend to 23 months (VAH, Buffalo, N.Y.). A surgeon from the VAH, Oteen, N.C., was invited to spend 3 months in Moscow demonstrating newer cardiac surgery techniques.

Mr. THOMAS. Personnel is going to go up 176 in 1964. Employment was 2,477 last year and next year you want to go up to 2,976.

Let's see where these people are located. Refer to 21–4, gentlemen.

Are these people usually professors in an adjacent medical college?

Dr. MIDDLETON. No, sir. These are people with technical skills. The biochemists, the physicists of whom you have been speaking.

Mr. THOMAS. There are around 3,000 of them now. They do not practice medicine.

Dr. MIDDLETON. They do not, sir.

Mr. THOMAS. Are there any Ph. D.'s in the crowd?

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. How do you compensate this distinguished and dedicated crowd that comes from the various medical colleges? How many of your 170 hospitals are adjacent to and in the same neighborhood as the colleges?

Dr. MIDDLETON. Ninety-four or ninety-five.

Mr. THOMAS. How many of these people come from these 90 medical colleges?

Dr. MIDDLETON. The vast majority are associated with hospitals that are in the affiliated program but they are not, sir, members of the staff except by courtesy of the medical school.

Mr. THOMAS. Are these people full-time employees?

Dr. MIDDLETON. The vast majority are full-time employees of the Veterans' Administration. In the basic sciences and sciences related to medicine.

Mr. THOMAS. I have been in a good many of your excellent hospitals adjoining a medical college. The first place I want to go when I am there is to some of the research installations and invariably there are four or five college professors conducting an investigation.

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. How do you compensate those people?

Dr. MIDDLETON. They are consultants but they are not the kernel or the core of this particular program. They lend an impetus to it.

Mr. THOMAS. They are the brains of your program. Nobody knows that half as well as you do. It is the ones in the medical colleges and not in your hospitals.

Dr. MIDDLETON. We have strong staffs in our own hospitals. I would not demean the medical schools. It is a two-way street.

Mr. THOMAS. This is excellent reading.

Research programs exist in 136 hospitals, gentlemen, 7 regional offices, 3 outpatient clinics, and Veterans' Benefit offices in Washington, D.C. Only 86 of the hospitals were affiliated with medical schools.

Dr. MIDDLETON. I said 94.

Mr. THOMAS. We did not miss it far.

A total of 7,504 individual research projects were conducted by 5,451 research investigators.

You set out a lot of accomplishments on pages 21–5 and 21–6. This is in the record. I have tried to read the foregoing over carefully. Not being a scientist, I didn't know, but in reading that over I thought maybe the group had displaced Children's Hospital in Boston.

Dr. MIDDLETON. Sir, if I may cite an example——

Mr. THOMAS. And the Rockefeller Foundation in the field of cancer, several medical colleges in heart surgery and heart research.

By the way, Doctor, did you see that whole page dedicated to Dr. Debohke the other day? I do not know whether they printed it all over the United States.

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. Wasn't it wonderful?

Dr. MIDDLETON. Yes, sir. He is a very fine man.

Mr. THOMAS. He certainly is.

PACEMAKER TO STIMULATE HEARTS

Mr. MIDDLETON. Mr. Chairman, there is just one detail for human interest that you might like to have in the record, on this item 21 on page 21–6, at our hospital at Buffalo, N.Y. Dr. Chardack has devised this pacemaker.

Mr. THOMAS. That is item 21, gentlemen.

Dr. MIDDLETON. Yes, sir. It so happened that Dr. Tokara, of the Oteen Veterans' Administration Hospital, was in Moscow on a student exchange and there was word that there was an individual physician in Czechoslovakia with heart block and heart failure who wanted to obtain this pacemaker made in Buffalo. Dr. Tokara from Oteen went to Prague and implanted this pacemaker in the heart of this physician, with physicians from behind the Iron Curtain watching him carefully, I think hoping for the worst, but the patient did very well.

Mr. THOMAS. The instrument is set inside the heart?

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. What is its function?

Dr. MIDDLETON. It is a small transistor that gives an electrical discharge at the rate of about 60 beats a minute.

Mr. THOMAS. It supplements the heart power?

Dr. MIDDLETON. Yes, sir.

Mr. THOMAS. It works?

Dr. MIDDLETON. It works.

Mr. THOMAS. That is marvelous. You can't tell where genius is going to show its head.

Mr. JONAS. The Russians have not yet advanced the claim that they perfected this?

Dr. MIDDLETON. They just looked on.

Mr. THOMAS. You just give them time.

Mr. GLEASON. Mr. Jonas, this physician from Oteen spent 3 months in Moscow teaching them how to use the pacemaker.

Dr. MIDDLETON. There is a stapling device he has made for blood vessel surgery.

MEDICAL RESEARCH FUNDS FROM OTHER SOURCES

Mr. JONAS. Mr. Chairman, I wanted to ask a question on 21–10. They have not told us much about $7 million they are getting from NIH.

Mr. THOMAS. That is not all. If you look down further they have a little bit more coming from another source.

Mr. JONAS. What is the total you are getting from sources outside of direct appropriations?

Dr. MIDDLETON. This is the total from the NIH and from other organizations.

Mr. JONAS. You do get some grants from NSF too, do you not?

Dr. MIDDLETON. Not from National Science. We are in the medical field. They do not deal with medicine.

Mr. JONAS. What do you do with that money?

Dr. MIDDLETON. This is part of our total program, the largest element of which has to do with our cooperative studies in the chemotherapy of cancer.

Mr. JONAS. Do you use it to supplement appropriated funds at any place in the program?

Dr. MIDDLETON. Not at any place, sir. In this specific instance there is obviously the ability on the part of the National Institutes of Health to develop the fundamental research and availability of certain chemicals and drugs for the treatment of cancer. We have the patients and make the study.

Mr. JONAS. Your program is a $40 million program instead of $33 million?

Dr. MIDDLETON. It will be with this supplement from outside sources.

Mr. JONAS. You had that last year.

Dr. MIDDLETON. We had $29 million last year.

Mr. JONAS. You had $7 million from the outside funds.

Dr. MIDDLETON. You are right, sir.

Mr. JONAS. What you had last year was the $7 million and you hope to get the same amount in 1964?

Dr. MIDDLETON. That is right. We had from the NIH for the chemotherapy just under a million—$982,700—and then we had through the various medical schools with which we are affiliated and other sources, $6,054,100 in grants to these institutions for use in our particular studies in the hospitals.

Mr. JONAS. You made the grants with NIH money?

Dr. MIDDLETON. That is right. They made the grants. NIH made the grants through the medical schools to our men working in hospitals.

COST CHANGES—MEDICAL RESEARCH

Mr. EVINS. Mr. Reporter, place in the record the program changes in medical research on 21–10.

(The page referred to follows:)

MEDICAL RESEARCH

COST CHANGES

The estimate of $32,467,000 for fiscal year 1964 contemplates an increase of $2,967,000 over the $29,500,000 appropriated for the medical research program in fiscal year 1963. Total expenditures planned for fiscal year 1964 are comprised of $31,021,000 for operational research and $1,446,000 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 $7,037,000 was available in fiscal year 1962 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 1963 and 1964. An indeterminate amount of support is also furnished from funds budgeted for hospital operations for other services including housekeeping, personnel, supply, fiscal, and engineering at the hospital level. This estimate does not include funding of research construction projects which are a part of the "Construction of hospitals and domiciliaries fund" appropriation.

Operational research expenditures of $31,021,000 will increase moderately over fiscal year 1963 expenditures to permit the addition of 176 new research employees; to cover the personal service costs of two additional paid workdays, Public Law 87–793 and within-grade salary increases for existing staff; to provide additional supplies, equipment and other services to augment existing research studies; and to 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 is assuming payments for object class 31 equipment required in connection with research space construction projects programed in the fiscal year 1963 and subsequent year budget submission. These include projects for major construction and alterations, hospital modernization and replacement, and additional hospitals. Subject to the availability of total fiscal year 1963 and 1964 medical research amounts reflected in this estimate, the agency proposes to earmark $765,000 of fiscal year 1963 funds and $1,446,000 of fiscal year 1964 funds 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.

COMPARATIVE EXTRA-VA RESEARCH COSTS

Mr. EVINS. We will also insert the comparative research costs on 21–14.

(The pages referred to follow:)

MEDICAL RESEARCH

Comparative extra-VA research costs

Category	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−), 1964 over 1963
Georgetown University [1]	$6,000	$6,000	$6,000	
National Bureau of Standards [2]	5,000	5,000	5,000	
National Research Council (National Academy of Sciences) [3]	201,800	213,000	213,000	
Sciences Information Exchange (Smithsonian Institution) [4]	50,000	65,000	65,000	
System Development Corp.[3]	246,000	120,000		−$120,000
University of North Carolina [6]	9,315	12,000	12,000	
University of Oklahoma [7]	2,000	2,800	2,800	
Woman's Medical College of Pennsylvania [8]	2,085			
Digitronics Corp.[3]		22,000	22,000	
American Foundation for the Blind [10]	25,000	43,000	43,000	
Total	547,200	488,800	368,800	−120,000

[1] Space and facilities for research in pulmonary diseases.
[2] Testing of dental prosthetic materials.
[3] Basic statistical analysis in connection with followup studies of specific diseases; preparation of the "Atlas of Tumor Pathology;" and statistical analysis and presentation of research in oncology by the Armed Forces Institute of Pathology.
[4] Support of a central file of research papers jointly with other Government agencies.

USE OF NIH RESEARCH FUNDS

Mr. EVINS. I think we have discussed this somewhat.

Doctor, it is not really true that the NIH has really more appropriated funds than they can use and fortunately because of that they are able to make allocations supplement to VA?

Dr. MIDDLETON. Sir, I am not in position to state.

Mr. EVINS. I saw a news story one time that the NIH had more money than they could use. They have a tremendous carryover.

Mr. JONAS. The President froze a lot of it.

Mr. EVINS. Yes. It is an area where great research is going on. I know each complement the other. You have outlined some of the accomplishments. If there was a reduction in research, don't you think you could ask them to give you a little bit more?

Dr. MIDDLETON. I am sorry, we could not.

Mr. EVINS. You feel you are receiving the maximum at this time that you can prevail upon them to allocate to you?

Dr. MIDDLETON. Most of these sums, as you realize, are independent grants and the major item—single item—is in the area of chemotherapy of cancer, which is obviously a very important one, in which we are supplementing their effort.

I think the Bureau of the Budget and the committees of Congress have complimented these two agencies on working together and teaming in this respect.

PROSTHETIC RESEARCH

Mr. EVINS. Gentlemen, let us look at prosthetic research. Put the table on page 21–33 in the record.

(The table referred to follows:)

PROSTHETIC RESEARCH

Comparative analysis by object

Costs by object	Fiscal year 1962, actual		Fiscal year 1963, estimated		Fiscal year 1964, estimated		Increase (+) or decrease (−) 1964 over 1963	
	F T E employees	Cost	F T E employees	Cost	F T E employees	Cost	F T E employees	Cost
10 Personnel compensation and benefits:								
Consultants	1	$5,088	1	$7,000	1	$8,000	------	+$1,000
Dentists	1	19,034	1	20,000	1	20,000	------	----------
Clinical and counseling psychiatrist	1	4,459	1	6,000	1	6,000	------	----------
Other employees	27	219,486	30	252,000	33	301,000	+3	+49,000
Subtotal	30	248,067	33	285,000	36	335,000	+3	+50,000
21 Travel and transportation of persons:								
Employee travel	------	9,951	------	11,000	------	14,000	------	+3,000
Beneficiary travel	------	892	------	2,000	------	2,000	------	----------
Subtotal	------	10,843	------	13,000	------	16,000	------	+3,000
22 Transportation of things	------	806	------	1,000	------	1,000	------	----------
23 Rents, communications, and utilities:								
Communications	------	2,696	------	3,000	------	3,000	------	----------
Rental of equipment	------	242	------	1,000	------	1,000	------	----------
Subtotal	------	2,938	------	4,000	------	4,000	------	----------
24 Printing and reproduction	------	576	------	8,000	------	11,000	------	+3,000
25 Other services:								
Repairs to furniture and equipment	------	2,842	------	5,000	------	12,000	------	+7,000
Other contributing services	------	779,895	------	776,863	------	814,000	------	+37,137
Subtotal	------	782,737	------	[1] 781,863	------	826,000	------	+44,137
26 Supplies and materials:								
Office supplies	------	2,309	------	3,000	------	5,000	------	+2,000
Books	------	3,014	------	1,000	------	1,000	------	----------
Operating supplies and materials	------	25,174	------	36,000	------	40,000	------	+4,000
Subtotal	------	30,497	------	40,000	------	46,000	------	+6,000
31 Equipment:								
Furniture and fixtures	------	3,445	------	3,000	------	4,000	------	+1,000
Medical, dental, and scientific equipment	------	10,651	------	22,000	------	32,000	------	+10,000
Subtotal	------	14,096	------	25,000	------	36,000	------	+11,000
Total costs, prosthetic research	------	1,090,560	------	[1] 1,157,863	------	1,275,000	------	+117,137

[1] Includes $142,000 in costs financed from obligations incurred in fiscal year 1962, and $15,863 fiscal year 1962 unobligated balance planned for expenditure in fiscal year 1963.

Mr. EVINS. This table on 21–17 shows employment and object summary. In the righthand column, most of them show increases: Contract research is up from $1.15 million to $1,275,000, up $117,000.

Mr. MONK. This is for the prosthetics.

Dr. MIDDLETON. Except for our two laboratories this is an area in which we are entirely dependent on contracts with the various firms that produce these prosthetics.

Mr. EVINS. Our chairman pointed out that you had been getting about a million dollars for this each year. Haven't you just about perfected these prosthetic appliances? Are there really more new things to be discovered and adapted and developed?

Dr. MIDDLETON. Yes, sir. I think last year the two greatest developments were in the area of a new hydraulic knee, which as a prosthetic device has been made more acceptable to the amputee above the knee joint. The other area to which I had called attention previously was that of the determination of the obstacle by the use of the transistor device with the electronic eye, that detected obstacles in front of an individual and made possible for the blind a very much better contact with reality.

Mr. EVINS. Your personnel compensation is up $47,000. Is that due to the pay raise legislation passed by Congress?

Dr. MIDDLETON. Yes, sir.

Mr. EVINS. Mr. Reporter, place in the record the three pages, 21–18 through 21–20 on prosthetic research.

(The pages referred to follow:)

PROSTHETIC RESEARCH

PROGRAM NOTES

The Veterans' Administration is authorized by section 216, title 38, United States Code, to conduct a prosthetics research program and to make the results available so all disabled may benefit. This program has markedly improved the lives of severely disabled persons by developing both better devices and improved methods of treatment.

Prosthetics education and information programs have disseminated results widely. The intra-VA program for specification development and compliance checking not only protects eligible veterans and saves operating cost for VA but indirectly offers similar protection to the much greater numbers of nonveterans with comparable disabilities.

Approval on August 2, 1962, of Public Law 87–572 removed the appropriation authorization ceiling of $1 million for prosthetics research, the amount authorized by Public Law 729, 80th Congress, 1948, and retained through interim codifications. Appropriation of funds for prosthetics research is now authorized as necessary to carry out the program.

Accordingly, an appropriation increase of $275,000 is reflected in this estimate, to provide for total prosthetic research expenditures of $1,275,000 in the 1964 fiscal year. This increase, extremely modest compared to the extent of inflation in research costs, is essential for the Veterans' Administration to continue its major role in this field. The increase specifically is required for average salary increases resulting from Public Law 87–793 and within-grade salary advances; increased activity in clinical studies on major devices; intensified studies of aids for the blind; new developments in bracing; further correlation of physical tests of hearing aids with clinical value; and generally to bring about greater consistency between the level of prosthetic research conducted within the agency and the needs of disabled veteran beneficiaries.

Because of the complicated nature of research in prosthetic and sensory aids, and the difficulty of predicting stages of completion of various projects, it is essential that funds remain available until expended.

Clinical evaluation studies of major prosthetic devices will continue in fiscal year 1964. Pilot studies will be made by the VA and private clinics on the special needs of geriatric amputees and on bracing problems. Followup studies also will be conducted on devices developed within the agency's prosthetic research program. Correlation of clinical results with physical tests of prosthetic and orthopedic appliances and hearing aids will continue to strengthen specifications and compliance testing with resulting economies in procurement and repair of appliances. Research on training of amputees in the use of devices, begun as a pilot project in fiscal year 1963, will be expanded.

Contractual research generally will be expanded at several additional laboratories and private clinics in fiscal year 1964 and emphasis will be applied to increasing intra-VA research activities.

INTRA-VA PROSTHETICS RESEARCH PROGRAM

In addition to administering the broad program, the prosthetic and sensory aids research staff will continue to carry out a variety of highly technical duties. Technical visits to contractors, review of reports and other literature, and working conferences will continue to correlate projects. A nationwide clinical application study of at least one additional hydraulic knee in fiscal years 1963 and 1964 will provide additional information on durability, prescription criteria, and other aspects. Other clinical studies also are planned where participation of selected clinic teams will be supported by prosthetics research funds.

In addition to regularly scheduled intra-VA training courses on numerous aspects of prosthetics, special seminars will continue to be offered as appropriate. Prescription and checkout of the total-contact socket, for example, will be taught to physicians.

In fiscal years 1963 and 1964 continued research, development, evaluation, and educational activities will be performed by the VA Prosthetics Center.

A nominal increase in employee travel limitation is required for the proper correlation of VA Prosthetics Center research efforts and participation in increasing numbers of educational programs.

An intra-VA project on hearing aids will continue to study specific physical properties of aids such as distortion and transient response in relation to speech discrimination and other indications of clinical value. Closer coordination with the contractual projects will be fostered to supplement existing arrangements with the National Bureau of Standards.

CONTRACTUAL RESEARCH IN PROSTHETICS

The major portion of research, development, and evaluation will continue at universities and nonprofit research institutions. A smaller amount of work, particularly in design and development, will be done at industrial laboratories.

Contractual work in artificial limbs is expected to decrease somewhat in fiscal year 1964. The decrease in new obligations is offset by increased intra-VA activity. Contractual work on braces, likewise, will decrease slightly, though there will be increased intra-VA activity.

Fundamental studies at University of California at San Francisco will continue to study the role of the trunk in locomotion and the action of the human knee and hip joints to improve both limbs and braces. UCLA will continue to study control of auxiliary power for artificial limbs as well as extend such work to control of braces. A number of development projects will design new components for artificial limbs, emphasizing needs of geriatric and other problem cases plus replacing interim devices in the upper-extremity armamentarium.

Considerable work on braces will be accomplished in fiscal year 1963 and fiscal year 1964. Special attention will be given to braces for hemiplegia and paraplegia. As for artificial limbs, there will be a coordinated program of research, development, and evaluation of devices and techniques plus development of prescription criteria and checkout methods.

Research and development on several devices for the blind has progressed so satisfactorily that independent evaluation through use by blind subjects in

everyday activities will be possible in fiscal year 1963 and fiscal year 1964. More powerful lamps and other advances make feasible emphasis on miniaturized detectors of obstacles presently missed by a long cane but dangerous to the torso or head of the blind person. Renewed study of electronic curb detectors will also be undertaken.

An intensive program started in 1957 on development of reading machines for the blind has resulted in completion of one device, including a group training program, which appears ready for clinical application. Two more sophisticated devices are nearly ready as laboratory demonstration models. Concentrated effort with increasing opportunity for evaluation should greatly improve the lot of blinded individuals by giving them independent access to typed and printed materials.

Provision of a tactile output in place of the audible output for the Battelle device has frequently been suggested by blinded individuals, in spite of the long history of slow reading rates on embossed letters, bas-relief inscriptions and the like. To meet such preferences and especially the needs of the deaf-blind, the relatively simple conversion of the Battelle device to one or more forms of tactile output should be made in fiscal year 1963, and the resulting output should be evaluated in fiscal year 1964 at New York Medical College, where experiments have already been made on slit type tactile scanning.

Research on hearing aids will continue at the same level, emphasizing correlation of physical properties with clinical value and studying improved tests for selecting and prescribing specific binaural or monaural aids. The possibility of hi-fi aids to help hard-of-hearing blind individuals to detect and localize obstacles by echoes will be investigated.

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MEDICAL CARE

Object classification

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Personnel compensation:			
Permanent positions	669,750	706,968	736,366
Positions other than permanent	37,357	39,368	40,087
Other personnel compensation	13,531	14,140	20,977
Total personnel compensation	720,638	760,476	797,430
Direct costs:			
11 Personnel compensation	716,865	756,611	793,280
12 Personnel benefits	53,696	57,302	60,597
21 Travel and transportation of persons	8,472	8,692	8,741
Employee travel	747	871	883
22 Transportation of things	1,900	1,953	1,986
23 Rent, communications, and utilities	18,226	19,290	20,251
24 Printing and reproduction	1,064	1,084	1,091
25 Other services	15,070	13,695	13,965
Contract hospitalization	15,660	16,672	16,466
Medical and dental fees	10,393	10,277	10,332
26 Supplies and materials	88,341	89,353	91,989
Provisions	46,073	46,742	46,673
31 Equipment	12,985	19,993	20,783
32 Lands and structures	1,749	1,959	1,955
41 Grants, subsidies, and contributions	7,366	7,460	7,481
Subtotal	998,607	1,051,954	1,096,473
Deduct quarters and subsistence charges	8,794	8,772	8,785
Total direct costs	989,813	1,043,182	1,087,688
Reimbursable costs:			
11 Personnel compensation	3,773	3,865	4,150
12 Personnel benefits	278	292	315
25 Other services	70	87	84
26 Supplies and materials	352	387	437
Provisions	205	219	214
Total reimbursable costs	4,678	4,850	5,200
Total program costs	994,491	1,048,032	1,092,888
Change in selected resources	−505		
Total obligations	993,986	1,048,032	1,092,888

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	128,621	130,175	130,648
Full-time equivalent of other positions	6,018	6,150	6,160
Average number of all employees	131,647	132,957	133,532
Number of employees at end of year	146,909	148,400	149,000
Average GS grade	4.7	4.7	4.7
Average GS salary	$4,992	$5,276	$5,333
Average salary, grades established by 38 U.S.C. 4107	$8,336	$9,035	$9,128
Average salary of ungraded positions	$4,339	$4,351	$4,494

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
Direct program:			
1. Maintenance and operation of hospitals:			
(a) Neuropsychiatric hospitals	268,061	287,459	302,394
(b) General hospitals	564,003	583,753	608,591
2. Contract hospitalization:			
(a) Civil hospitals	5,400	5,591	5,539
(b) Municipal and State hospitals	2,157	2,162	2,090
(c) Federal hospitals	8,103	8,919	8,837
3. Maintenance and operation of domiciliary facilities:			
(a) Veterans' Administration homes	28,844	30,456	31,425
(b) State homes	7,366	7,460	7,481
4. Outpatient care	91,146	95,430	98,593
Total program costs, funded	975,079	1,021,230	1,064,950
Direct capital outlay:			
1. Maintenance and operation of hospitals:			
(a) Neuropsychiatric hospitals	4,046	5,400	5,260
(b) General hospitals	9,133	14,689	15,135
3. Maintenance and operation of domiciliary facilities:			
(a) Veterans' Administration homes	411	757	988
4. Outpatient care	1,145	1,106	1,355
Total direct capital outlay	14,734	21,952	22,738
Total direct program costs, funded	989,813	1,043,182	1,087,688
Reimbursable program:			
1. Maintenance and operation of hospitals:			
(b) General hospitals	4,458	4 625	4,975
4. Outpatient care	220	225	225
Total reimbursable program costs	4,678	4,850	5,200
Total program costs, funded	994,491	1,048,032	1,092,888
Change in selected resources [1]	−505		
Total obligations	993,986	1,048,032	1,092,888
Financing:			
Advances and reimbursements from (−)—			
Other accounts	−3,313	−3,475	−3,525
Non-Federal sources [2]	−1,364	−1,375	−1,675
Unobligated balance lapsing	46		
New obligational authority	989,354	1,043,182	1,087,688
New obligational authority:			
Appropriation	989,371	1,017,892	1,087,688
Transferred to "Operating expenses, Public Buildings Service, "General Services Administration (75 Stat. 353 and 76 Stat. 728) (−)	−17	−75	
Appropriation (adjusted)	989,354	1,017,817	1,087,688
Proposed supplemental due to pay increases		25,365	

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders 1961, $2,228,000; (1962 adjustments, −$162,000); 1962, $1,561,000; 1963, $1,561,000; 1964, $1,561,000.

[2] Reimbursements from non-Federal sources are derived from charges for medical services rendered non-beneficiaries in emergency cases (38 U.S.C. 611).

Mr. EVINS. If there are no further questions on research we will turn to medical care.

Here is a good table on 22–1. This shows your employment, workload, and other objects. Your activities are shown on page 22–3. Mr. Reporter, put this material in the record.

(The material referred to follows:)

Medical Care

Employment, workload, and object summary

	Fiscal year 1962 actual	Fiscal year 1963 estimated	Additional 2 workdays and 1 calendar day	Public Law 87-793 and within-grade increases	Workload changes	Other program changes	Fiscal year 1964 estimated	Increase (+) or decrease (−) 1964 over 1963
Average employment:								
Inpatient activities	122,672	123,803	----------	----------	+522	----------	124,325	+522
Outpatient activities	7,940	8,094	----------	----------	+28	----------	8,122	+28
Total	130,612	131,897	----------	----------	+550	----------	132,447	+550
Average payroll cost	$5,931	$6,252	+$47	+$204	+$1	−$23	$6,481	+$229
Workloads:								
Average daily benefit load, inpatient	139,226	139,846	----------	----------	−791	----------	139,055	−791
Prepost and trial visits, VA hospital	689,612	708,644	+2,200	----------	+15,797	----------	726,641	+17,997
Number of patients treated, VA hospital	688,507	698,507	+2,000	----------	+8,000	----------	708,507	+10,000
Medical visits, outpatient	3,656,104	3,679,000	+28,300	----------	+20,700	----------	3,728,000	+49,000
Dental examination cases completed, outpatient	36,159	37,500	+300	----------	+1,500	----------	39,300	+1,800
Dental treatment cases completed, outpatient	28,443	30,000	+250	----------	+1,500	----------	31,750	+1,750
Net costs:								
Inpatient activities	$901,979,644	$957,780,000	+$6,354,000	+$24,957,000	+$3,784,000	−$160,000	$992,715,000	+$34,935,000
Outpatient activities	92,511,525	96,761,000	+736,000	+2,057,000	+426,000	+169,000	100,149,000	+3,388,000
Total	994,491,169	1,054,541,000	+7,090,000	+27,014,000	+4,210,000	+9,000	1,092,864,000	+38,323,000
Costs by object:								
11 Personnel compensation	720,637,714	766,536,000	+5,866,000	+25,017,000	+3,436,000	−3,425,000	797,430,000	+30,894,000
12 Personnel benefits	53,973,728	58,043,000	+440,000	+1,881,000	+262,000	+286,000	60,912,000	+2,869,000
21 Travel and transportation of persons	9,218,994	9,563,000	+53,000	----------	−2,000	+10,000	9,624,000	+61,000
Employee	(746,848)	(871,000)	+(2,000)	----------	----------	+(10,000)	(883,000)	+(12,000)
All other	(8,472,146)	(8,692,000)	+(51,000)	----------	−(2,000)	----------	(8,741,000)	+(49,000)
22 Transportation of things	1,900,226	1,953,000	+6,000	+9,000	+1,000	+17,000	1,986,000	+33,000
23 Rent, communications, and utilities	18,225,836	19,290,000	+66,000	+61,000	+23,000	+787,000	20,227,000	+937,000
24 Printing and reproduction	1,064,213	1,084,000	+4,000	----------	+2,000	+1,000	1,091,000	+7,000
25 Other services	41,192,939	40,731,000	+171,000	----------	−416,000	+361,000	40,847,000	+116,000
Contract hospitalization	(15,659,690)	(16,672,000)	(+46,000)	----------	(−367,000)	(+115,000)	(16,466,000)	(−206,000)
Medical and dental fees	(10,393,480)	(10,277,000)	(+75,000)	----------	(−61,000)	(+41,000)	(10,332,000)	(+55,000)
26 Supplies and materials	134,971,341	136,701,000	+463,000	+46,000	+127,000	+1,976,000	139,313,000	+2,612,000
31 Equipment	12,985,111	19,993,000	----------	----------	+790,000	----------	20,783,000	+790,000
Replacement equipment	(11,037,343)	(17,589,000)	----------	----------	----------	----------	(17,589,000)	----------
Initial equipment for new facilities	----------	(750,000)	----------	----------	(+790,000)	----------	(1,540,0000)	(+790,000)
Additional equipment for existing facilities	(1,947,768)	(1,654,000)	----------	----------	----------	----------	(1,654,000)	----------

32 Lands and structures	1,749,060	1,959,000				−4,000	1,955,000	−4,000
41 Grants, subsidies, and contributions (State homes)	7,365,937	7,460,000	+21,000				7,481,000	+21,000
Gross costs, total	1,003,285,099	1,063,313,000	+7,090,000	+27,014,000	+4,223,000	+9,000	1,101,649,000	+38,336,000
Less QS&L	8,793,930	8,772,000			+13,000		8,785,000	+13,000
Net costs, total	994,491,169	1,054,541,000	+7,090,000	+27,014,000	+4,210,000	+9,000	1,092,864,000	+38,323,000
Obligations incurred for costs of other years, net	−505,487							
Total obligations	993,985,682	1,054,541,000					1,092,864,000	+38,323,000
Less:								
Reimbursements received	4,677,602	4,850,000				+350,000	5,200,000	−350,000
Proposed supplemental		31,874,000						+31,874,000
Add:								
Unobligated balance or savings	46,037							
Transfers to other agencies	16,883	75,000				−51,000	24,000	−51,000
Appropriation or estimate	989,371,000	1,017,892,000					1,087,688,000	+69,796,000

MEDICAL CARE PROGRAM

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 1962, actual	Fiscal year 1963, esti-	Fiscal year 1964, esti-	Increase (+) or decrease (−) 1964 over 1963
VA hospitals	$849,699,028	$902,318,000	$936,355,000	+$34,037,000
VA domiciliaries	29,254,989	31,330,000	32,413,000	+1,083,000
Contract hospitals	15,659,690	16,672,000	16,466,000	−206,000
State homes	7,365,937	7,460,000	7,481,000	+21,000
Inpatient activities	901,979,644	957,780,000	992,715,000	+34,935,000
Outpatient activities	92,511,525	96,761,000	100,149,000	+3,388,000
Net total costs	994,491,169	1,054,541,000	1,092,864,000	+38,323,000
Obligation for other years, net	−505,487			
Less:				
Reimbursable received	−4,677,602	−4,850,000	−5,200,000	−350,000
Proposed supplemental		−31,874,000		+31,874,000
Add:				
Unobligated balance or savings	46,037			
Transfers to other agencies	16,883	75,000	24,000	−51,000
Appropriation or estimate	989,371,000	1,017,892,000	1,087,688,000	+69,796,000

Note. Transfers to other agencies are comprised of $16,883 transferred to the General Services Administration for rental of outpatient clinic space in fiscal year 1962; $75,000 in fiscal year 1963; and $24,000 in fiscal year 1964.

This estimate reflects an appropriation increase of $69,796,000 for fiscal year 1964 over the presently enacted fiscal year 1963 appropriation, or a net increase of $37,922,000 after considering the net fiscal year 1963 supplemental appropriation requirements of $31,874,000 for Public Law 87–793 postal and salary rate increases and Public Law 83–763 wage board increases. The fiscal year 1963 column of this estimate includes all known supplemental appropriation requirements for the current fiscal year. The fiscal year 1964 column of this estimate excludes amounts required to pay Public Law 83–763 wage board increases that will be approved between July 1, 1962, and June 30, 1964. A supplemental appropriation request covering these requirements will be transmitted in the 1964 fiscal year.

Mr. EVINS. This has been discussed earlier by the Administrator and by the Chief Medical Officer.

There is one item that I see which shows a tremendous increase in this chart on 22–1, Personnel Compensation.

In 1963 it is $766 million. Now it is going to $797,430,000, or an increase of $30 million. That is a pretty big jump.

Mr. BAKER. $25 million of that is due to Public Law 87–793, and the increased pay rates that go into effect in January 1964.

Mr. EVINS. In other words, $25 million of the pay raise increase as a result of an act of Congress?

Dr. MIDDLETON. Yes, sir.

Mr. EVINS. What about the other $5 million?

Mr. WISE. It is the cost of the extra work days.

Mr. GLEASON. Plus one day for leap year.

Mr. EVINS. How much were the fringe benefits? Were they $40 million?

Mr. BAKER. $60,912,000 in total for personnel benefits in 1964, an increase of almost $3 million over the current year.

Mr. EVINS. Are there any questions on this summary?

Mr. JONAS. I want to ask a question off the record.

(Discussion off the record.)

Mr. EVINS. Have you already explained this $38.3 million increase in your net cost of in-patient activities?

Dr. MIDDLETON. Yes, sir.

Mr. BAKER. The greater part of that, of course, is the $30 million plus in personnel cost and $3 million personnel benefits. Of the increase in supplies $463,000 is due to the extra day in the year, $127,000 is due to workload changes, and $1,976,000 is due to actual increase in unit cost or quantity used.

Mr. JONAS. How could the leap year affect your supplies?

Dr. MIDDLETON. Because we have 1 more day to take care of patients, medicines, supplies of all kinds that are used. We are open every day of the year.

Mr. EVINS. There is a chart on page 22–2, 22–3, 22–4, and 22–5.

Wage board salary increases and the act of Congress are the contributing factor to most of these pluses that we see through your justifications.

Mr. BAKER. Yes, sir.

Mr. EVINS. The explanation for these increases is shown on pages 22–7 and 22–8.

Are there any questions?

INPATIENT ACTIVITIES

Gentlemen, turn to inpatient activities on 22–18. We have discussed this to some extent. Mr. Reporter, put the summary table on 22–18 in the record. Also insert 22–22 through 22–25.

(The material referred to follows:)

Inpatient Activities

WORKLOAD AND OBJECT SUMMARY

	Fiscal year 1962 actual	Fiscal year 1963 estimate	Additional 2 workdays and 1 calendar day	Average salary increases	Workload changes	Other program changes	Fiscal year 1964 estimate	Increase (+) or decrease (−) 1964 over 1963
Average employment	122,672	123,803			+522		124,325	+522
Average payroll cost	$5,851	$6,173	+$47	+$201	+$1	−$26	$6,396	+$223
Operating beds:								
VA hospitals	120,976	121,364			+122		121,486	+122
VA domiciliaries	16,866	16,846			−415		16,431	−415
Average daily beneficiary load	139,226	139,846			−791		139,055	−791
VA hospitals	110,884	111,304			−279		111,025	−279
VA domiciliaries	16,400	16,542			−431		16,111	−431
Contract hospitals	2,880	2,900			−81		2,819	−81
State homes	9,062	9,100					9,100	
Patients treated	688,507	698,507	+2,000		+8,000		708,507	+10,000
Prepost and trial visits	689,612	708,644	+2,200		+15,797		726,641	+17,997
Costs by object:								
11 Personnel compensation	$667,670,218	$710,235,000	+$5,433,000	+$23,113,000	+$3,213,000	−$3,425,000	$738,569,000	+$28,334,000
12 Personnel benefits	50,147,911	53,964,000	+409,000	+1,744,000	+246,000	+246,000	56,609,000	+2,645,000
21 Travel and transportation of persons:								
Employee	481,081	550,000				+10,000	560,000	+10,000
All other	3,513,369	3,653,000	+11,000		−2,000		3,662,000	+9,000
22 Transportation of things	1,621,580	1,673,000	+4,000	+9,000	+1,000	+17,000	1,704,000	+31,000
23 Rent, communications, and utilities	17,267,842	18,217,000	+58,060	+51,000	+23,000	+744,000	19,093,000	+876,000
24 Printing and reproduction	973,344	993,000	+3,000		+2,000	+1,000	999,000	+6,000
25 Other services	30,343,401	30,018,000	+89,000		−355,000	+320,000	30,072,000	+54,000
(Contract hospitals)	(15,659,690)	(16,672,000)	+(46,000)		−(367,000)	+(115,000)	(16,466,000)	−(206,000)
(Medical and dental fees)	(1,073,244)	(1,093,000)	+(4,000)				(1,097,000)	+(4,000)
26 Supplies and materials	117,799,886	118,943,000	+326,000	+40,000	+127,000	+1,932,000	121,368,000	+2,425,000
31 Equipment	11,854,741	18,916,000			+542,000		19,458,000	+542,000
Replacement equipment	(10,076,528)	(16,657,000)					(16,657,000)	
Initial equipment for new facilities		(750,000)			+(542,000)		(1,292,000)	+(542,000)
Additional equipment for existing facilities	(1,778,213)	(1,509,000)					(1,509,000)	
32 Land and structures	1,734,264	1,930,000				−5,000	1,925,000	−5,000
41 Grants, subsidies, and contributions (State homes)	7,365,937	7,460,000	+21,000				7,481,000	+21,000
Total gross costs	910,773,574	966,552,000	+6,354,000	+24,957,000	+3,797,000	−160,000	1,001,500,000	+34,948,000
Less Q.S. & L.	8,793,930	8,772,000			−13,000		8,785,000	−13,000
New total costs	901,979,644	957,780,000	+6,354,000	+24,957,000	+3,784,000	−160,000	992,715,000	+34,935,000

Inpatient Activities

PROGRAM NOTES

During fiscal year 1962 the Veterans' Administration operated 170 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 120,976 in hospitals and 16,866 in domiciliaries were maintained, in which care and treatment were provided to average daily beneficiary loads of 110,884 patients and 16,400 members. In addition, care and treatment were provided to average daily beneficiary loads of 2,880 patients in civil, State, and other Federal hospitals, and 9,062 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 139,226.

The average daily beneficiary load receiving care and treatment on an inpatient basis will increase in fiscal year 1963 with the continued activation of the new Brecksville, Ohio, 1,000-bed NP hospital and decrease slightly in fiscal year 1964 due to major modernization and other construction work scheduled for other hospitals in that fiscal year. Comparative average daily beneficiary loads are as follows:

	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Increase (+) or decrease (−) 1964 over 1963
VA hospitals	110,884	111,304	111,025	−279
VA domiciliaries	16,400	16,542	16,111	−431
Contract hospitals	2,880	2,900	2,819	−81
State homes	9,062	9,100	9,100	
Total	139,226	139,846	139,055	−791

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 already is being demonstrated in the VA hospital system, resulting in—

(1) An improvement of the agency's capacity to meet the ever-increasing demand for hospitalization within the presently approved hospital-bed ceiling;

(2) A reduction in the length of patient stay in the hospital with the resulting effect of an increased turnover of veterans hospitalized for treatment;

(3) A decrease in the cost per patient treated; and

(4) A partial check on the development of longer waiting lists as the veteran population ages.

Steady increases in the numbers of patients treated, pre-, post-, and trial visits, admissions, and discharges in VA hospitals are expected each year, although the increases will be of lesser proportion than experienced in fiscal years 1961 and 1962—the first years that agency hospitals operated under the Public Law 86–639 authorization.

Activity in VA hospitals	Fiscal year 1961, actual	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated	Increase (+) or decrease (−) 1964 over 1963
Number of patients treated	664,400	688,507	698,507	708,507	+10,000
Pre-, post-, and trial visits	563,484	689,612	708,644	726,641	+17,997
Admissions	537,022	561,808	573,400	583,250	+9,850
Discharges	500,837	521,396	529,250	536,000	+6,750

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 their 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 1964 result principally from the new construction at Brecksville, Ohio, Martinez, Calif., Nashville, Tenn., and Washington, D.C. The decrease in domiciliary beds is associated with reduced demands and the planned reduction of 291 beds at the Bath, N.Y., facility in conjunction with establishment of a new restoration center at East Orange, N.J.

Operating bed changes

	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964	Increase (+) or decrease (−) 1964 over 1963
NP hospitals	56,171	57,884	57,959	+75
General hospitals	64,805	63,480	63,527	+47
Subtotal, hospitals	120,976	121,364	121,486	+122
Domiciliaries	16,866	16,846	16,431	−415
Total, VA facilities	137,842	138,210	137,917	−293

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 30, 1962, the total bed capacity of the VA hospitals was 122,777, of which 2,046 beds were unavailable on that date for the following reasons:

In process of activation	537
Type of bed not required—no patient demand	572
Space for beds undergoing construction or maintenance activity	615
Other reasons, such as space to quarter member employees	322
Total	2,046

A substantial number of the beds reported on June 36, 1962, as unavailable will be placed in operation during the current fiscal year. December 31, 1962, 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 1964 appropriation request.

Comparative fiscal year 1961 and fiscal year 1962 month-end waiting list numbers of beneficiaries eligible, but not yet scheduled for hospital admission, are shown in the following:

Waiting list

At end of the month	Psychiatric patients		Tuberculous patients		Medical, surgical, and neurological patients		Total		Increase (+) or decrease (−) 1962 over 1961
	Fiscal year 1961	Fiscal year 1962	Fiscal year 1961	Fiscal year 1962	Fiscal year 1961	Fiscal year 1962	Fiscal year 1961	Fiscal year 1962	
July	13,514	11,930	244	40	6,296	4,856	20,054	16,826	−3,228
August	13,303	11,837	191	22	5,524	4,395	19,018	16,254	−2,764
September	13,109	12,049	122	3	5,048	4,485	18,279	16,537	−1,742
October	13,181	11,917	165	9	4,863	3,827	18,209	15,753	−2,456
November	13,044	11,835	128	31	4,466	3,571	17,638	15,437	−2,201
December	12,950	11,709	77	30	4,387	3,312	17,414	15,051	−2,363
January	13,083	11,932	109	63	6,786	5,511	19,978	17,506	−2,472
February	13,213	12,102	102	53	7,411	7,210	20,726	19,365	−1,361
March	13,287	12,544	83	39	7,547	7,933	20,917	20,516	−401
April	13,200	12,484	67	37	7,409	7,278	20,676	19,799	−877
May	12,726	12,205	56	31	6,142	6,346	18,924	18,582	−342
June	12,636	12,101	31	45	6,105	6,282	18,772	18,428	−344
Monthly average	13,104	12,054	115	36	5,999	5,417	19,218	17,507	−1,711

NOTE.—Non-service-connected applicants constitute practically 100 percent of the waiting list. Service-connected applicants are admitted immediately upon determination that hospitalization is necessary and are not included in waiting lists unless the applicant elects to postpone his admission until a later date.

Mr. EVINS. These charts on 22–18, 19, 20, and 21 show pretty much the picture. There is a table on 22–22. In the VA hospitals in 1962 you had 110,884 patients; 1963, 111,304; and in 1964, you estimate 111,025; which represents a decrease of 279. Do you think you are about leveling off on your demands, sir?

Dr. MIDDLETON. No, sir, the better utilization of beds and the assurance we will have treated 10,000 more patients this year.

WAITING LISTS

Mr. EVINS. But speaking for the record, there are no service-connected cases awaiting admission?

Dr. MIDDLETON. None awaiting admission who will accept the available bed. That I say in qualification because some patients wish to go to other hospitals or at their local site and must wait.

Mr. EVINS. How much do you have on the waiting list of nonservice connected?

Dr. MIDDLETON. Seventeen thousand.

Mr. JONAS. Will the gentleman yield?

Mr. EVINS. Yes.

Mr. JONAS. The Administrator said this morning that any veteran who could otherwise qualify, even if he suffers from a non-service-connected case, will be hospitalized if he is willing to go where the beds are available.

Mr. GLEASON. That is right.

Mr. JONAS. From that standpoint, you can say there is really no waiting list for even non-service-connected cases, if they are willing to go where the beds are available?

Mr. GLEASON. Not quite, Mr. Jonas. It is pretty close to it. We have an average load of 111,000 we will say out of 122,000 operating beds. There is a waiting list of 17,000. This at least would reduce it to approximately five to six thousand.

Generally speaking, in a place like Philadelphia, which I mentioned, there is no problem in getting the veteran hospitalization if he wants to take the 45-minute ride to Wilmington, Del. This is true in the New England States. If a person in Boston is on a waiting list, if he really wants the medical care, he can get in at Manchester without any problem.

LENGTH OF STAY IN HOSPITALS

Mr. EVINS. What was the average time per patient in hospitals 2 years ago as compared to now?

Dr. MIDDLETON. I have the categories that I think are purely demonstrable. The first in the G.M. & S. hospital, the average length of time, 1959—I have 1959 and 1960 by ages: For all ages, 1959, 33.1 days; and 1961, 30.8 days. If you go to the 65 years and older, in 1959, 41.4 days; and 1961, 36.5 days. The length of stay by the types of hospitals—I have just been speaking of G.M. & S. at that point—I have these figures from 1952 through 1961. I should like to introduce it into the record.

Mr. EVINS. It may be included in the record if you will give it to the reporter.

(The information referred to follows:)

Trend in length of stay in VA hospitals

Calendar year	Type of patient					
	All patients	Pulmonary tuberculosis	Psychotic	Other psychiatric	Neurological	General medical and surgical
1952	62.6	303.1	553.6	39.1	91.9	31.0
1953	66.8	315.0	552.3	43.6	88.2	31.0
1954	64.8	286.3	471.3	43.3	81.8	31.9
1955	63.0	275.4	471.0	42.0	74.3	31.0
1956	64.9	258.0	526.0	42.8	78.3	31.4
1957	70.2	278.1	583.8	46.4	80.8	33.0
1958	76.8	281.7	671.9	51.9	86.4	33.2
1959	73.1	263.6	643.5	52.1	90.0	33.1
1960	76.0	250.9	647.3	60.6	87.9	33.3
1961	74.8	235.5	662.8	55.7	84.5	30.8

HOSPITAL PER DIEM COSTS

Mr. EVINS. I note you state a decrease in the cost per patient treated. How much has that decrease amounted to over the past couple of years? What was it formerly and what is it now?

Dr. MIDDLETON. This is an interesting circumstance because it has to do with the reduced episode of treatment. In other words, an individual with the same condition would cost more if he were on the extended period of, say, 2 years ago or even 10 years ago.

We will come down to the particulars of your question.

Mr. THOMAS. May I suggest that someplace in your examination put that chart in the record that gives for the last 3 years the bed cost per day for G.M. & S. and N.P. hospitals. For 1964 it is about $30 a day for the G.M. & S. I believe that will be the best breakdown you can get per bed.

Mr. EVINS. In the table on 22–5, it shows the type patients: psychiatric, TB, and total. It shows the decreases. This shows the type

but not the cost. If you could supply us with a table on the decreasing cost per patient it would be helpful.

Dr. MIDDLETON. Yes, sir.

Mr. JONAS. Will you yield?

Mr. EVINS. Yes.

Mr. JONAS. Where is the table which shows the increase in daily cost per bed?

Mr. BAKER. Page 22–56 for general hospitals shows the detail of cost.

Mr. THOMAS. One cover sheet covers your different type hospitals.

Mr. JONAS. I think it should go in the record at this point.

Mr. EVINS. Yes.

Mr. BAKER. 22–40 shows all of them.

(The page referred to follows:)

VETERANS' ADMINISTRATION HOSPITALS

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 1962 actual		Fiscal year 1963 estimated		Fiscal year 1964 estimated		Increase (+) or decrease (−) 1964 over 1963	
	Costs	Cost per patient-day	Costs	Cost per patient-day	Costs	Cost per patient-day	Costs	Cost per patient-day
NP hospitals	$274,921,244	$14.082	$298,300,000	$14.893	$310,534,000	$15.498	+$12,234,000	+$0.605
General hospitals	583,342,768	27.089	612,560,000	28.935	634,376,000	29.980	+21,816,000	+1.045
Total gross costs	858,264,012		910,860,000		944,910,000		+34,050,000	
Less QS&L	8,564,984		8,542,000		8,555,000		−13,000	
Net total costs	849,699,028		902,318,000		936,355,000		+34,037,000	

NOTE.—Costs per patient-day include direct costs of patient and exclude costs such as maintenance of quarters, care of dead, etc., which are included in the total gross costs.

Comparative full-time equivalent employment summary by type of hospital

	Fiscal year 1962, actual		Fiscal year 1963, estimated		Fiscal year 1964, estimated		Increase (+) or decrease (−), 1964 over 1963	
	VA employment	Consultants	VA employment	Consultants	VA employment	Consultants	VA employment	Consultants
NP hospitals	39,901	155	41,349	162	41,696	163	+347	+1
General hospitals	78,044	745	77,585	745	77,804	745	+219	
Total	117,945	900	118,934	907	119,500	908	+566	+1

NOTE.—Consultant employment computed at rate of each visit being 1/20 of a man month or 240 visiting days per man year.

Mr. EVINS. The table on 22–40 shows the cost. The table on 22–25 shows the type of patient, and the chart on 22–23 shows the type of treatment and numbers.

Mr. JONAS. Would you yield?

Mr. EVINS. Yes, sir.

Mr. JONAS. It shows substantial increases each year in total cost and cost per day.

Mr. GLEASON. I think you will find, Mr. Jonas, that is brought about principally through the increase in pay Congress authorized.

Mr. JONAS. Other costs are up, too. Is it true?

Dr. MIDDLETON. Yes, sir. The point was made earlier this morning by the Administrator that 80 to 82, even some as high as 84, percent of costs are in personnel. This is the big item of hospital costs.

COST OF MEALS PROVIDED EMPLOYEES

Mr. EVINS. Doctor, explain the two charts on 22–36 and 22–37. Give us a wrap-up as to what they show.

Mr. BAKER. That gives the amounts for food costs and quarters that are deducted from employees' salaries where they elect to take meals and/or quarters at the hospital by the type of hospital and domiciliary. In other words, these amounts are deducted from the salaries which the employee would otherwise get for services that are provided by the station.

Mr. EVINS. That is not included in your fringe benefit?

Mr. BAKER. No, sir. He pays for that.

Mr. JONAS. At cost?

Mr. BAKER. It is supposed to be at the cost to the Government, including all services and depreciation on the kitchen and dining room equipment.

Mr. JONAS. What do you charge him for a meal, breakfast, lunch, and dinner?

Mr. BAKER. It is about $1 a meal.

Dr. MIDDLETON. Eighty-five cents for breakfast and $1 for lunch and dinner.

Mr. THOMAS. It is about like the cafeteria. It is on a break-even basis. You get a good meal for $1.

Mr. BAKER. Our raw-food cost would be about $1 per day. If he takes three meals he pays $2.75 to $2.90 a day.

Mr. JONAS. I do not understand that. If it is $1 a meal——

Mr. BAKER. $1 per meal, plus the cost of preparing and serving which is included in there.

Mr. MONK. $1 per meal, $3 per day is what he pays.

Mr. EVINS. Give us a rundown on 22–41.

Mr. BAKER. This chart on 22–41 breaks down the type of employment by the various activities under direct care or care of patients, administration and maintenance and operation of the plant and the facilities. It shows the number of employees in each category for each of the 3 years and the changes in 1964 over 1963. There is a total increase of 567 full-time equivalent employment in 1964 over what we expect to have during the current year.

Mr. EVINS. Could you get along next year at the same level?

Mr. BAKER. A great majority of that is for activation of the new hospitals.

We are beginning activation of Washington, D.C., Cleveland, Ohio, and continued activation, I think, at Brecksville, Ohio.

Dr. MIDDLETON. May I ask you to look at chart 22–42 and see with what concern I view any flattening off of that level.

PATIENT-EMPLOYEE RATIO

Mr. EVINS. Relationship of employees to ADPL in VA hospitals.

Mr. GLEASON. For 1,000 average daily patient load.

Mr. EVINS. In 1954 you had 1,090 per 1,000 average daily patient load. It dropped down in 1959 to 1,032, now it has gone up in 1961 to 1,085. Why these peaks and valleys, Doctor?

Dr. MIDDLETON. We have not had the personnel really that was required to do the job that we think should be done under the restrictions of the increased pay.

Mr. EVINS. You gave better treatment and care in 1954 then you did in 1960 and 1959?

Dr. MIDDLETON. I think we had the better tools in 1960 than in 1954 but certainly we could do a better job if we had more personnel.

Mr. MONK. One basic reason for that decrease until 1960 was that when we came up here we could never project an average increase in salary in our budget and this meant that we could never buy the number of people that we were budgeting for. We are now permitted to project an average increase in the salary which makes it possible for us to more nearly approach the budgeted employment figure.

Dr. MIDDLETON. We can account for 60 percent of that.

Mr. JONAS. Will the gentleman yield?

Mr. EVINS. Mr. Jonas.

Mr. JONAS. Actually if you look at this chart it would seem to be alarming, this wide fluctuation, but when you analyze it, it is not very alarming after all. The lowest point which was 1959 you were only 58 people under the highest point, which was 1954 and you spread 59 people out among all of your——

Mr. GLEASON. That is per thousand.

Mr. JONAS. Relate that to your total.

Dr. MIDDLETON. If you took that out of a thousand-bed hospital it would be a great deal.

Mr. JONAS. What does that amount to throughout?

Mr. MONK. We have 120,000 full-time employees.

Mr. JONAS. 120 times 58.

Mr. THOMAS. For every 1,000 patients you have about 1,080 employees. Put it on that basis. You have your ADPL of 110,000 or 111,000. The variation is in truth and in fact very, very minor. I think you can get a better idea of it when you compare it with private hospitals. What do the armed services and private hospitals do?

Dr. MIDDLETON. The private hospitals range above 2 to 1 so there would be 2,000 to 1,000 patients.

Mr. JONAS. What do the armed services use?

As I remember, they were right in your classification.

Mr. WISE. They are considerably higher.

Mr. JONAS. What do you mean considerably higher?

Mr. WISE. The customs of the service, for example in the Navy, when a man is about ready for retirement but no longer can serve a full tour of duty at sea, he goes to the Medical Corps and that supplements the staff with those personnel budgeted under "Pay of the Army or Navy."

Mr. THOMAS. It is not that bad. Give us the figures.

Mr. WISE. We would have to supply them.

Mr. THOMAS. What is your best guess? You keep up with this. That is your job. You know it better than anybody. What is the figure? You know what the Navy, Army, and Air Force rate today is in the hospitals. What about that employment?

Mr. WISE. It would run about 1½ to 1, sir.

Mr. THOMAS. Is it that high?

Mr. WISE. Yes, sir. Compared to ours of about 1.3 to 1.

Mr. JONAS. Are you counting service personnel assigned?

Mr. WISE. Yes, sir.

Mr. JONAS. Break this down between G.M. & S. and NP hospitals. Which is the highest ratio?

Mr. GLEASON. G.M. & S.

Mr. JONAS. It is higher if you take it alone. It is more nearly comparable to civilian hospitals; is it not?

Mr. BAKER. No, sir. It is not close. It is closer than the NP certainly; 1,384 employees per thousand patients is our request for 1964 in the general hospitals.

Mr. WISE. 772 employees per thousand patients in neuropsychiatric hospitals.

NEUROPSYCHIATRIC HOSPITALS

Mr. EVANS. Let's take a look at NP hospitals. Mr. Reporter, place 22–46 and 47 in the record.

(The pages referred to follow:)

NEUROPSYCHIATRIC HOSPITALS

INPATIENT ACTIVITIES

The estimate provides average of 57,959 operating beds and 54,253 patient load in neuropsychiatric hospitals in fiscal year 1964, or an increase of 75 operating beds and decrease of 120 patient load averages from levels anticipated for fiscal year 1963.

A new 1,000-bed hospital at Brecksville, Ohio, was initially activated during the first half of the 1962 fiscal year, which was the ninth "advanced-type" NP hospital constructed since World War II. The buildup of this hospital will continue in fiscal year 1963 with complete activation scheduled at the end of the current fiscal year.

The estimate contemplates additional treatment staff for (1) establishment or expansion of medical and surgical bed sections at certain hospitals for treatment of psychiatric patients that have medical, surgical, or neurological conditions, and (2) increasing the number of patients treated and the number of pre-, post, and trial visits.

Workload and object summary

	Fiscal year 1962 actual	Fiscal year 1963 estimate	Additional 2 workdays and 1 calendar day	Public Law 87-793 and within grade increases	Workload changes	Other program changes	Fiscal year 1964 estimate	Increase (+) or decrease (−), 1964 over 1963
Number of hospitals	41	41					41	
Average employment	40,056	41,511			+348		41,859	+348
Average payroll cost	$5,606	$5,902	+$45	+$200		−$22	$6,125	+$223
Operating beds	56,171	57,884			+75		57,959	+75
Occupancy rate (percent)	94.3	93.9			−0.3		93.6	−0.3
Average daily patient load	52,986	54,373			−120		54,253	−120
Psychiatric	49,716	50,819			−29		50,790	−29
Tuberculous	48	35					35	
Tuberculous-NP	668	628			−40		588	−40
Medical and surgical	1,888	2,088			+23		2,111	+23
Neurologic	666	803			−74		729	−74
Patients treated	111,578	113,600			+1,700		115,300	+1,700
Pre-post and trial visits	50,083	55,434	+200		+1,345		56,979	+1,545
Ratio of employees (including consultants) to operating beds	0.713	0.717			+0.005		0.722	+0.005
Ratio of employees (including consultants) to ADPL	0.756	0.763			+0.009		0.772	+0.009
Costs by object:								
11 Personnel compensation	$208,503,005	$227,348,000	+$1,741,000	+$7,719,000	+$1,954,000	−$967,000	$237,795,000	+$10,447,000
12 Personnel benefits	16,062,450	17,634,000	+135,000	+599,000	+152,000	+87,000	18,607,000	+973,000
21 Travel and transportation of persons:								
Employee	135,346	175,000					175,000	
All other	449,559	508,000	+2,000		+1,000		511,000	+3,000
22 Transportation of things	402,737	427,000	+1,000	+3,000	+1,000	+4,000	436,000	+9,000
23 Rent, communications, and utilities	4,683,900	5,159,000	+15,000	+13,000	+16,000	+211,000	5,414,000	+255,000
24 Printing and reproduction	228,469	240,000	+1,000		+2,000		243,000	+3,000
25 Other services	2,928,530	2,690,000	+10,000		+10,000	+15,000	2,725,000	+35,000
(Medical and dental fees)	(286,783)	(296,000)	(+2,000)				(298,000)	(2,000)
26 Supplies and materials	37,481,557	38,719,000	+107,000	+13,000	+119,000	+410,000	39,368,000	+649,000
31 Equipment	3,182,331	4,581,000			−146,000		4,435,000	−146,000
Replacement equipment	(2,704,980)	(4,053,000)					(4,053,000)	
Initial equipment for new facilities		(150,000)			(−146,000)		(4,000)	(−146,000)
Initial equipment for existing facilities	(477,351)	(378,000)					(378,000)	
32 Lands and structures	863,360	819,000				+6,000	825,000	+6,000
Total gross costs	274,921,244	298,300,000	+2,012,000	+8,347,000	+2,109,000	−234,000	310,534,000	+12,234,000
Less O.S.+L.	2,814,939	2,871,000			−9,000		2,880,000	−9,000
Net total costs	272,106,305	295,429,000	+2,012,000	+8,347,000	+2,100,000	−234,000	307,654,000	+12,225,000

Mr. EVINS. You had 41 NP hospitals for the last year, 41 next year, 41 in 1964. There is no change. The average employment is increasing from 40,000 to 41,500, and a further 348 personnel increase to 1964. We do not have any more NP hospitals but you have to have 348 more people to run them.

Mr. WISE. That is for the completion of activation at the thousand bed neuropsychiatric hospital at Brecksville, Ohio.

Mr. EVINS. You outlined that earlier.

Mr. WISE. Yes, sir.

GENERAL MEDICAL HOSPITALS

Mr. EVINS. Let us take a look at your general medical hospitals. There is a statement on 22–53 and a chart on 22–54. Insert those pages in the record at this point.

(The pages referred to follow:)

GENERAL HOSPITALS

INPATIENT ACTIVITIES

The estimate provides averages of 63,527 operating beds and 56,772 patient load in general hospitals in fiscal year 1964, or an increase of 47 operating beds and a decrease of 159 patient load averages from the levels anticipated for fiscal year 1963. These adjustments are the net result of major modernization work scheduled for fiscal year 1964, and limited shifts in patient loads to alleviate overcrowding and/or meet changing patient demands in specific geographic areas.

The estimate contemplates 219 additional treatment staff in the general hospital to (1) increase patient turnover rates, (2) convert TB beds at certain hospitals for treatment of 279 additional patients with medical and surgical conditions, and (3) activate the new hospital facilities at Cleveland, Ohio, and Washington, D.C.

Workload and object summary

	Fiscal year 1962 actual	Fiscal year 1963 estimated	Additional 2 workdays and 1 calendar day	Public Law 87-793 and within grade increases	Workload changes	Other program changes	Fiscal year 1964 estimated	Increase (+) or decrease (−) 1964 over 1963
Number of hospitals	129	128					128	
Average employment	78,789	78,330			+219		78,549	+219
Average payroll cost	$6,001	$6,347	+$48	+$202	−$1	−$29	$6,567	+$220
Operating beds	64,805	63,480			+47		63,527	+47
Occupancy rate (percent)	89.3	89.7			−.3		89.4	−.3
Average daily patient load	57,898	56,931			−159		56,772	−159
Psychiatric, medical and infirm	7,065	6,306			+142		6,448	+142
Tuberculous	6,456	5,905			−279		5,626	−279
Tuberculous, neuropsychiatric	201	76					76	
Medical and surgical	40,383	40,652			−3		40,649	−3
Neurologic	3,793	3,992			−19		3,973	−19
Patients treated	576,929	584,907	+2,000		+6,300		593,207	+8,300
Prepost and trial visits	639,529	653,210	+2,000		+14,452		669,662	+16,452
Ratio of employees (including consultants) to operating beds	1.216	1.234			+.002		1.236	+.002
Ratio of employees (including consultants) to ADPL	1.361	1.376			+.008		1.384	+.008
Costs by object:								
11 Personnel compensation	$440,062,757	$462,345,000	+$3,533,000	+$14,686,000	+$1,332,000	−$2,438,000	$479,458,000	+$17,113,000
12 Personnel benefits	32,764,738	34,788,000	+263,000	+1,094,000	+100,000	+145,000	36,390,000	+1,602,000
21 Travel and transportation of persons:								
Employees	335,666	366,000				+10,000	376,000	+10,000
All other	3,032,386	3,110,000	+9,000				3,119,000	+9,000
22 Transportation of things	1,177,470	1,204,000	+3,000	+6,000		+13,000	1,226,000	+22,000
23 Rent, communications, and utilities	11,972,683	12,349,000	+34,000	+37,000	+10,000	+507,000	12,937,000	+588,000
24 Printing and reproduction	725,760	733,000	+2,000			+1,000	736,000	+3,000
25 Other services	11,109,473	10,078,000	+32,000		+5,000	+181,000	10,296,000	+218,000
(medical and dental fees)	(767,480)	(777,000)	+(2,000)				(779,000)	+(2,000)
26 Supplies and materials	73,029,300	72,898,000	+204,000	+24,000	+55,000	+1,522,000	74,703,000	+1,805,000
31 Equipment	8,276,866	13,647,000			+448,000		14,095,000	+448,000
Replacement equipment	(7,035,336)	(12,018,000)					(12,018,000)	
Initial equipment for new facilities		(600,000)			+(448,000)		(1,048,000)	+(448,000)
Additional equipment for existing facilities	(1,241,530)	(1,029,000)					(1,029,000)	
32 Lands and structures	855,669	1,042,000				−2,000	1,040,000	−2,000
Total gross costs	583,342,768	612,560,000	+4,080,000	+15,847,000	+1,950,000	−61,000	634,376,000	+21,816,000
Less quarters, subsistence, and laundry	5,750,045	5,671,000			4,000		5,675,000	4,000
Net total costs	577,592,723	606,889,000	+4,080,000	+15,847,000	+1,946,000	−61,000	628,701,000	+21,812,000

Mr. EVINS. In 1962 you had 129 G.M. & S. hospitals, in 1963 you had 128. You lost one.

Mr. BAKER. We closed out Outwood, Ky., sir.

Mr. GLEASON. That was Outwood, Ky., I mentioned earlier this morning.

Mr. EVINS. Personnel, average employment——

Mr. THOMAS. Will you yield, Mr. Evins?

Mr. EVINS. Yes, sir.

COMPARISON OF HOSPITAL PER DIEM COSTS

Mr. THOMAS. In your employee-patient ratio of 2 to 1 in the civilian hospitals, are you exactly accurate there? Here is the reason I suggest you look at the figures. We contend in here that 85 percent of your expense is your salary cost. A civilian hospital is on the same proportion. It is 2 to 1 against yours. Check out the fee against the bed cost. Your bed cost in the G.M. & S. hospital is about $30 a day and you can go to most any civilian hospital for $30 a day.

Mr. DRIVER. Not and pay the doctor.

Mr. THOMAS. I am not talking about that. You pay extra for the doctor, your medicines, labs, and so forth. I am talking about an employment basis. You get in deep water there with your figures.

Mr. GLEASON. Mr. Thomas, in a private hospital the patient is paying in addition to his hospitalization, he is also paying for his medicines, he is paying for his doctor.

Dr. MIDDLETON. His laboratories, drugs, et cetera.

Mr. THOMAS. Eighty-five percent, on your basis of $30 a day, would cost him about $50 or $55 a day. That is not a comparable cost. Assuming he has to get an X-ray and assume he has to get this and that.

Mr. GLEASON. When we include all of this within our cost per day, Mr. Thomas, this is a real low figure.

Mr. JONAS. This is the average daily patient cost.

Mr. GLEASON. That is right, sir.

Mr. THOMAS. Medicine, X-rays, and everything goes in.

Mr. GLEASON. Your doctor is included in this, your medicines, X-rays, food.

Mr. JONAS. The point the Chairman makes is that the reason the costs are not comparable with civilian hospitals is because the services rendered are not comparable. You throw in a lot of fringe benefits. If you would relate this——

Mr. GLEASON. I follow you.

Mr. THOMAS. You have it tax free. There is no interest charge against the building.

Mr. JONAS. If you threw in the costs involved in services you would be above civilian hospitals.

Mr. WISE. Mr. Jonas, I believe, sir, in practically all civilian hospitals you will find that their physician's services are excluded from the per diem.

That is a separate billing, so if you were to include that you would find VA I think much more comparable in that sense.

Mr. THOMAS. That is the only item excluded, though. Your X-rays, medicine——

Mr. WISE. Newspapers, X-rays, medicines, they are all excluded.

Mr. DRIVER. X-rays would be excluded just like the physician's fees.

Mr. THOMAS. That is part of your hospital cost. You mean separate from the room charge itself?

Mr. DRIVER. Yes, sir.

Mr. THOMAS. I think you are right.

Mr. GLEASON. That is why the civilian would be so much higher.

Mr. THOMAS. I am not so sure. That is what we are talking about now. Your total cost is wrapped up in 85 percent in just one item. That is pay and benefits, is it not?

Dr. MIDDLETON. Yes, sir. That is 85 percent.

Mr. THOMAS. Suppose you had interest, construction cost, and everything else included. Your bed cost would be what? It is $30 now. What would it be, $34 or $35?

On a comparable basis a civilian hospital would be what, $60 or $65?

Dr. MIDDLETON. At least.

Mr. THOMAS. Going to a ward in a good civilian hospital costs $20 or $21, does it not? Most of your beds are wards.

Mr. GLEASON. You can go into them, Mr. Chairman, but in addition to the cost of $21 or $22 a day in a ward, you have to still pay your physician and extra costs.

Mr. THOMAS. That is right, X-rays, medicine, and everything; but when you stick to cost accounting I doubt if your hospital is any cheaper than a civilian hospital. When you say they have two employees to your one it does not help your case very much.

Mr. MONK. It is very difficult to make a comparison of the two that is valid.

Mr. EVINS. Doctor, while you need 219 more employees for your G.M. & S. hospitals, you have a decrease of 1 hospital. That is on page 22–34.

Mr. BAKER. That is due to the initial activation of the Washington, D.C., hospital and the Cleveland hospital. We are beginning to activate those during 1964.

Mr. EVINS. If you showed two more hospitals, that would be more understandable.

Mr. BAKER. Those are replacement hospitals.

Mr. EVINS. Operating beds are from 64,805 in 1962 to 63,480 in 1963.

Mr. BAKER. And then an increase again of 47 for 1964.

Mr. EVINS. That is an increase of 47 beds for 1964.

CONTRACT HOSPITALIZATION

Mr. EVINS. We will place in the record pages 22–61 and 22–62.

(The pages referred to follow:)

CONTRACT HOSPITALIZATION

Cost summary by object

Costs	Fiscal year 1962 actual	Fiscal year 1963 estimated	Fiscal year 1964 estimated	Increase (+) or decrease (−), 1964 over 1963
25 Other contractual services	$15,659,690	$16,672,000	$16,466,000	−$206,000
Average daily patient load				
Federal (total)	1,274	1,300	1,257	−43
Non-Federal (total)	1,606	1,600	1,562	−38
Civil	(949)	(960)	(947)	−(13)
Municipal and State	(657)	(640)	(615)	−(25)
Total contract hospitalization	2,880	2,900	2,819	−81

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- 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 hospitalization 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 on per diem rates established under contracts between the VA and the various hospitals concerned. Additional charges for professional services such as surgeons' fees, special-duty nursing care, anesthesia, and consultants are provided in the contracts and are included in the estimates for both Federal and non-Federal contract hospitalization.

The agency's objective over the years has been to reduce the contract hospitalization bed utilization to the extent feasible. A slight increase in Federal contract hospital patient load is being experienced in fiscal year 1963 because of heavier demands in the State of Alaska. Both Federal and non-Federal contract hospital patient loads will decline slightly in fiscal year 1964, however, 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 contract 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 2,900 and 2,819 estimated for fiscal years 1963 and 1964, respectively, it is estimated that approximately 63 percent will be hospitalized in the 50 States and 37 percent in Manila and Puerto Rico.

COST CHANGES

The net decrease of $206,000 for fiscal year 1964 is comprised of (1) a decrease of $328,000 for the reduction of 81 average daily patient load; (2) an increase of $46,000 for payment of costs related to the extra calendar day; and (3) an increase of $76,000 in non-Federal hospital contract rates and minor changes in composition of patient loads.

Non-Federal contract hospitalization costs for fiscal year 1963 and 1964 have been computed at per diem rates established under current contracts between the agency and the various hospitals concerned.

Mr. EVINS (reading):

Hospitalization of VA beneficiaries in non-Federal hospitals in the United States (including Alaska and Hawaii) is restricted to male veterans requiring hospitalization for treatment of either service 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.

Of the total contract hospitalization load of 2,900 and 2,819 estimated for fiscal year 1963 and 1964, respectively, it is estimated that approximately 63 percent will be hospitalized in the 50 States and 37 percent in Manila and Puerto Rico.

Dr. MIDDLETON. There are 810 in Puerto Rico and 250 ADPL in Manila.

Mr. EVINS. 810 patients in contract hospitals?

Dr. MIDDLETON. Yes, sir; 810 in Puerto Rico and 250 in Manila.

Mr. EVINS. What is the total cost of payments to contract hospitals?

Mr. BAKER. The total for all contract patients is $16,466,000 in 1964 and the rates vary by type of hospital.

Mr. EVINS. Where is that set out?

Mr. BAKER. Page 22–64 will give you the rates per day for each of the various categories of patients that we have in the various hospitals. The overall average is $15.96 in 1964 and it varies from a low of around $9 for NP patients and $6 plus at some local TB hospitals to almost $27 a day.

Mr. EVINS. $16,466,000, estimated for 1964. Is that the total cost of your contract hospital charges?

Mr. BAKER. Yes, sir.

Mr. JONAS. Will the gentleman yield?

Mr. EVINS. Yes.

Mr. JONAS. You haven't got a single one that even approaches your cost.

Mr. BAKER. The reciprocal rate for the Federal hospitals is established by the Bureau of the Budget and is consistent between all agencies.

Mr. JONAS. But you have some civil hospitals.

Mr. BAKER. These are mostly public hospitals, State, local, county.

Mr. THOMAS. The taxpayers pay for them like you do. The question he raises is why can't you do it as cheaply as they do. It is the same service.

Mr. GLEASON. We give better service.

Mr. BOLAND. What is the difference between the civil and municipal and State? You list them separately. What is a civil hospital?

Mr. BAKER. That would be a private hospital.

Mr. BOLAND. So you do have private hospitals here.

Mr. EVINS. U.S. Army hospitals, Air Force hospitals, Navy, Marine. You have them in the Panama Canal Zone. You list other Federal hospitals. At one time that was $70. This runs about the same. Let us put the chart on pages 22 to 64 in the record.

(The chart referred to follows:)

Contract Hospitalization Activities

Comparative costs, average daily patient load, and patient-day costs by activity

	Fiscal year 1962 actual			Fiscal year 1963 estimate			Fiscal year 1964 estimate			Increase (+) or decrease (−), 1964 over 1963		
	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	Total cost	Average daily patient load	Cost per patient-day
Non-Federal contract hospital (total)	$7,556,845	1,606	$12.89	$7,753,000	1,600	$13.28	$7,629,000	1,562	$13.34	−$124,000	−38	+.06
Civil (total)	5,400,129	949	15.59	5,591,000	960	15.96	5,539,000	947	15.98	−52,000	−13	+.02
NP	2,238,636	496	12.37	2,219,000	488	12.46	2,234,000	488	12.51	+15,000	----------	+.05
TB	678,789	149	12.48	687,000	148	12.72	654,000	140	12.76	−33,000	−8	+.04
GM	2,482,704	304	22.37	2,685,000	324	22.70	2,651,000	319	22.71	−34,000	−5	+.01
Municipal and State (total)	2,156,716	657	8.99	2,162,000	640	9.26	2,090,000	615	9.29	−72,000	−25	+.03
NP	1,328,562	419	8.69	1,320,000	398	9.09	1,285,000	386	9.10	−35,000	−12	+.01
TB	303,086	126	6.59	294,000	123	6.55	276,000	115	6.56	−18,000	−8	+.01
GM	525,068	112	12.84	548,000	119	12.62	529,000	114	12.68	−19,000	−5	+.06
Federal contract hospital (total)	8,102,845	1,274	17.43	8,919,000	1,300	18.80	8,837,000	1,257	19.20	−82,000	−43	+.40
U.S. Army	1,918,493	227	23.15	2,199,000	241	25.00	2,214,000	242	25.00	+15,000	+1	----------
U.S. Air Force	583,888	70	22.85	666,000	73	25.00	705,000	77	25.00	+39,000	+4	----------
U.S. Navy	3,049,902	361	23.15	3,340,000	366	25.00	3,303,000	361	25.00	−37,000	−5	----------
U.S. Public Health Service (Marine)	234,340	27	23.78	264,000	29	25.00	284,000	31	25.00	+20,000	+2	----------
U.S. Public Health Service (Fort Worth)	1,115,075	235	13.00	1,115,000	235	13.00	1,023,000	215	13.00	−92,000	−20	----------
U.S. Department of Health, Education, and Welfare (St. Elizabeths)	1,142,032	348	8.99	1,276,000	350	9.99	1,249,000	325	10.50	−27,000	−25	+.51
Panama Canal Zone	59,045	6	26.96	59,000	6	26.94	59,000	6	26.94	----------	----------	----------
All other Federal hospitals	70	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------	----------
Total contract hospitalization	15,659,690	2,880	14.90	16,672,000	2,900	15.75	16,466,000	2,819	15.96	−206,000	−81	+.21

Domiciliary Care

Mr. Evins. We will move on to VA domiciliary care. Place in the record 22–65, 66, and 71.

(The pages referred to follow:)

Domiciliary Care

inpatient activities

The estimate provides for averages of 16,431 operating beds and 15,496 member load in VA domiciliaries during fiscal year 1964 with approximately 615 additional members receiving domiciliary care in VA hospitals, or decreases of 415 operating beds and 485 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 planned in fiscal year 1963 and fiscal year 1964 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.

A decrease in domiciliary waiting lists was experienced in fiscal year 1962. The number of eligible applicants not scheduled for admission at the end of each month for both the 1961 and 1962 fiscal years is shown below:

Month	Fiscal year 1961	Fiscal year 1962	Month	Fiscal year 1961	Fiscal year 1962
July	190	239	February	1,035	578
August	328	241	March	633	489
September	393	276	April	567	267
October	414	335	May	466	186
November	579	569	June	432	100
December	786	699			
January	977	794	Monthly average	567	398

Workload and object summary

	Fiscal year 1962 actual	Fiscal year 1963 estimated	Additional 2 workdays and 1 calendar day	Public Law 87-793 and within-grade increases	Workload changes	Other program changes	Fiscal year 1964 estimated	Increase (+) or decrease (−) 1964 over 1963
Number of domiciliaries	19	19				+1	20	+1
Average employment	3,827	3,962			−45		3,917	−45
Average payroll cost	$5,337	$5,574	+$43	+$191	+$47	−$2	$5,853	+$279
Operating beds	16,866	16,846			−415		16,431	−415
Occupancy rate (percent)	97.2	98.1			−.1		98.0	−.1
Average daily member load	16,400	16,542			−431		16,111	−431
Domiciliary members	15,760	15,825			−485		15,340	−485
Member employees	613	615					615	
Restorees	27	102			+54		156	+54
Ratio of employees to operating beds	.227	.235			+.003		.238	+.003
Ratio of employees to ADML (excluding member employees)	.242	.249			+.004		.253	+.004
Costs by object:								
11 Personnel compensation	$19,104,456	$20,542,000	+$159,000	+$708,000	−$73,000	−20,000	$21,316,000	+$774,000
12 Personnel benefits	1,320,723	1,542,000	+11,000	+51,000	−6,000	+14,000	1,612,000	+70,000
21 Travel and transportation of persons:								
Employee	10,069	9,000					9,000	
All other	31,424	35,000			−3,000		32,000	−3,000
22 Transportation of things	41,373	42,000					42,000	
23 Rent, communications, and utilities	611,259	709,000	+9,000	+1,000	−3,000	+26,000	742,000	+33,000
24 Printing and reproduction	19,115	20,000					20,000	
25 Other services	645,708	578,000	+1,000		−3,000	+9,000	585,000	+7,000
(Medical and dental fees)	(18,981)	(20,000)					(20,000)	
26 Supplies and materials	7,289,029	7,326,000	+15,000	+3,000	−47,000		7,297,000	−29,000
31 Equipment	395,544	688,000			+240,000		928,000	+240,000
Replacement equipment	(336,212)	(586,000)					(586,000)	
Initial equipment for new facilities					(+240,000)		(240,000)	(+240,000)
Additional equipment for existing facilities	(59,332)	(102,000)					(102,000)	
32 Lands and structures	15,235	69,000				−9,000	60,000	−9,000
Total gross costs	29,483,935	31,560,000	+195,000	+763,000	+105,000	+20,000	32,643,000	+1,083,000
Less: Q.S. & L.	228,946	230,000					230,000	
Net total costs	29,254,989	31,330,000	+195,000	+763,000	+105,000	+20,000	32,413,000	+1,083,000

Distribution of member loads and beds by domiciliary

Station	Actual fiscal year 1962 average			Estimated fiscal year 1963 average			Estimated fiscal year 1964 average		
	Operating beds	ADML	Percent utilization	Operating beds	ADML	Percent utilization	Operating beds	ADML	Percent utilization
Bath, N.Y.	1,128	1,060	94	1,051	1,045	99	760	740	97
Bay Pines, Fla.	417	382	92	400	380	95	400	370	93
Biloxi, Miss.	818	770	94	818	790	97	818	790	97
Bonham, Tex.	327	322	98	327	323	99	327	323	99
Clinton, Iowa	555	544	98	546	545	99	546	545	99
Dayton, Ohio	1,600	1,540	96	1,600	1,540	96	1,600	1,540	96
Dublin, Ga.	484	460	95	483	460	95	480	460	96
East Orange, N.J.							75	54	72
Hines, Ill.	60	27	45	120	102	85	120	102	85
Hots Springs, S. Dak.	548	449	82	548	460	84	548	460	84
Kecoughtan, Va.	1,203	1,134	94	1,203	1,140	95	1,203	1,140	95
Los Angeles, Calif.	2,603	2,535	97	2,623	2,550	97	2,474	2,420	98
Martinsburg, W. Va.	500	480	96	500	480	96	500	480	96
Mountain Home, Tenn.	1,776	1,585	89	1,781	1,605	90	1,781	1,565	88
Temple, Tex.	392	380	97	392	380	97	392	380	97
Thomasville, Ga.	800	760	95	800	750	94	800	750	94
Wadsworth, Kans.	1,000	937	94	1,000	930	93	985	930	94
Whipple, Ariz.	160	157	98	159	157	99	159	157	99
White City, Oreg.	1,025	941	92	1,025	940	92	1,000	940	94
Wood, Wis.	1,470	1,324	90	1,470	1,350	92	1,463	1,350	92
Total VA domiciliary	16,866	15,787	94	16,846	15,927	95	16,431	15,496	94
Member employees in VA hospitals		613			615			615	
Total domiciliary members		16,400			16,542			16,111	

Mr. EVINS (reading):

A decrease in domiciliary waiting lists was experienced in fiscal year 1962. The number of eligible applicants not scheduled for admission at the end of each month for both the 1961 and 1962 fiscal years is shown below.

This seems to increase in December and January and the winter months.

The number of domiciliaries increased from 19 to 20. Where is the new one?

Mr. BAKER. That is the restoration center that we are planning to open at East Orange.

Dr. MIDDLETON. There are 18 domiciliaries, 1 restoration center, the next one to be added in June.

Mr. EVINS. The occupancy rate anticipated is about the same as this year. It was my impression a few years ago that the ones in the old soldiers' homes were the ones that were increasing.

They were in there for a long period of time. They get in and do not want to get out.

Mr. GLEASON. They almost vegetate.

Mr. BAKER. The demand has dropped in the last year or so. Whether it is due to social security legislation, I am not sure. The waiting list is not so great.

Mr. EVINS. For equipment costs you have an increase in parenthesis, $240,000.

Mr. Baker, what is that? That is item 31, page 22–66.

Mr. WISE. That is the initial equipment for the new restoration center at East Orange.

State Homes

Mr. Evins. Let us insert the charts on pages 22–72 and 73. This shows where they are located.

(The pages referred to follow:)

State Homes

Cost summary by object

	Fiscal year 1962 actual	Fiscal year 1963 estimated	Fiscal year 1964 estimated	Increase (+) or decrease (−) 1964 over 1963
COSTS				
41 grants, subsidies, and contributions	$7,365,937	$7,460,000	$7,481,000	+$21,000
Average daily member load	9,062	9,100	9,100	

PROGRAM NOTES

In accordance with title 38 United States Code, section 610, domiciliary and hospitalization care are furnished to eligible beneficiaries in State soldiers' homes. Under the 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 in fiscal year 1962 of 9,062 was 323 less than in fiscal year 1961. This decline was due primarily to admission eligibility requirements imposed by several States regarding length of residency and financial status. Based on latest station estimates, the average member load for fiscal year 1963 is planned at 9,100 or an increase of 38 over fiscal year 1962 experience. The fiscal year 1963 member load level of 9,100 also is projected for fiscal year 1964.

Comparative average daily member loads since fiscal year 1948 are as follows:

Fiscal year:	*Actual average daily member load*	Fiscal year:	*Actual average daily member load*
1948	6,150	1957	8,938
1949	6,712	1958	9,318
1950	7,437	1959	9,678
1951	7,774	1960	9,418
1952	7,900	1961	9,385
1953	8,088	1962	9,062
1954	8,346	1963 (estimated)	9,100
1955	8,802	1964 (estimated)	9,100
1956	8,739		

Member loads actually experienced in fiscal year 1962 are indicated in the table shown below:

Distribution of fiscal year 1962 average daily member load by State home

STATE HOME	*Average daily member load*	STATE HOME	*Average daily member load*
Napa County, Calif	1,822	Vineland, N.J	109
Homelake, Colo	70	Oxford, N.Y	4
Rocky Hill, Conn	719	Lisbon, N. Dak	78
Millegeville, Ga	168	Erie County, Ohio	666
Boise, Idaho	107	Ardmore, Okla	151
Quincy, Ill	616	Norman, Okla	196
Lafayette, Ind	232	Sulphur, Okla	172
Marshalltown, Iowa	295	Erie, Pa	180
Fort Dodge, Kans	92	Bristol, R.I	243
Chelsea, Mass	633	Hot Springs, S. Dak	132
Holyoke, Mass	174	Bennington, Vt	40
Grand Rapids, Mich	745	Orting, Wash	153
Minneapolis, Minn	384	Retsil, Wash	216
St. James, Mo	67	King, Wis	277
Columbia Falls, Mont	51	Buffalo, Wyo	16
Grand Island, Nebr	142		
Tilton, N.H	37	Total	9,062
Menlo Park, N.J	75		

COST CHANGES

Fiscal year 1964 costs reflect no change in the fiscal year 1963 unit cost level with the exception of the expense for one additional calendar day in fiscal year 1964, which amounts to $21,000.

Mr. EVINS. You have grants, contracts, $7,481,000—an increase of $21,000.

Mr. BAKER. This is due to the additional day in 1964 because of leap year.

Mr. BOLAND. Is it true in all State homes admission is only for those who have service-connected disabilities?

Mr. MONK. The same eligibility requirements apply here as to the domiciliary.

Mr. JONAS. But not to contract hospitals.

Mr. MONK. Not to contract hospitals but in the State homes.

Mr. JONAS. Only in service-connected cases. They are eligible for contract hospitalization?

Mr. MONK. Basically that is right.

Mr. GLEASON. Basically but not entirely.

Mr. DRIVER. Females would be the big exception.

Mr. GLEASON. We do not have a large hospital in Puerto Rico. So we have contract hospitalization there.

OUTPATIENT CARE

Mr. EVINS. Outpatient care, increase $3,388,000 and 28 average employment. Mr. Reporter, put pages 22–74 and 77 in the record.

(The pages referred to follow:)

Workload and object summary

	Fiscal year 1962 actual	Fiscal year 1963 estimated	Additional 2 workdays and 1 calendar day	Public Law 87-793 and within-grade increases	Workload changes	Other program changes	Fiscal year 1964 estimated	Increase (+) or decrease (−) 1964 over 1963
Average employment	7,940	8,094			+28		8,122	+28
Average payroll cost	$7,153	$7,460	+$57	+$252	+$3	+$5	$7,777	+$317
Workloads:								
Medical:								
Number visits, total	3,656,104	3,679,000	+28,300		+20,700		3,728,000	+49,000
Staff, all purposes	2,429,229	2,469,000	+19,000		+28,000		2,516,000	+47,000
Fee, all purposes	1,226,875	1,210,000	+9,300		−7,300		1,212,000	+2,000
Dental:								
Examination cases completed, total	36,159	37,500	+300		+1,500		39,300	+1,800
Staff	32,143	33,500	+250		+1,500		35,250	+1,750
Fee	4,016	4,000	+50				4,050	+50
Treatment cases completed, total	28,443	30,000	+250		+1,500		31,750	+1,750
Staff	21,081	22,600	+200		+1,500		24,300	+1,700
Fee	7,362	7,400	+50				7,450	+50
Costs by object:								
11 Personnel compensation	$52,967,496	$56,301,000	+$433,000	+$1,904,000	+$223,000		$58,861,000	+$2,560,000
12 Personnel benefits	3,825,817	4,079,000	+31,000	+137,000	+16,000	+40,000	4,303,000	+224,000
21 Travel and transportation of persons:								
Employees	265 767	321,000	+2,000				323,000	+2,000
All other	4,958,777	5,039,000	+40,000				5,079,000	+40,000
22 Transportation of things	278,646	280,000	+2,000				282,000	+2,000
23 Rent, communication, and utilities	957,994	1,073,000	+8,000	+10,000		+43,000	1,134,000	+61,000
24 Printing and reproduction	90,869	91,000	+1,000				92,000	+1,000
25 Other contractual services	10,849,538	10,713,000	+82,000		−61,000	+41,000	10,775,000	+62,000
Medical fees	(8,155,621)	(8,001,000)	(+62,000)		(−61,000)	(+38,000)	(8,040,000)	(+39,000)
Dental fees	(1,164,615)	(1,183,000)	(+9,000)			(+3,000)	(1,195,000)	(+12,000)
Other services	(1,529,302)	(1,529,000)	(+11,000)				(1,540,000)	(+11,000)
26 Supplies and materials	17,171,455	17,758,000	+137,000	+6,000		+44,000	17,945,000	+187,000
31 Equipment	1,130,370	1,077,000			+248,000		1,325,000	+248,000
Replacement equipment	(960,815)	(932,000)					(932,000)	
Initial equipment for new facilities					(+248,000)		(248,000)	(+248,000)
Additional equipment for existing facilities	(169,555)	(145,000)					(145,000)	
32 Lands and structures	14,796	29,000				+1,000	30,000	+1,000
Net total costs	92,511,525	96,761,000	+736,000	+2,057,000	+426,000	+169,000	100,149,000	+3,388,000

PROGRAM NOTES

Veterans with service-connected disabilities are provided medical and dental care by the staffs of VA outpatient clinics 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.

Medical care through this program supplements or prevents costly hospitalization. In fiscal year 1962 the program was conducted through 93 outpatient clinics and 16 VA offices operated as branches of the parent clinic. During fiscal year 1963 outpatient clinics located at VA regional offices Houston, Tex.; Hartford, Conn.; and Nashville, Tenn.; will be consolidated with agency hospitals at Houston, Newington, and Nashville respectively. Three additional clinic consolidations are planned for fiscal year 1964 at VA hospitals, Cleveland, Ohio; Washington, D.C.; and Syracuse, N.Y.

For fiscal year 1963, the estimate contemplates 3,679,000 medical visits; 37,500 dental examination cases completed; and 30,000 dental treatment cases completed in the outpatient care program. Outpatient medical workloads are expected to increase in fiscal year 1964 because of the 2 additional workdays and planned activations of one new audiology clinic and five new day care centers. Workload declines resulting from virtual completion of the 1954 compensation and pension program will be offset largely by increasing numbers of World War II veterans under age 65 that apply for pensions as they advance in years.

The new audiology clinic will be located at VA hospital, Oklahoma City, Okla. The five additional psychiatric day care centers planned for activation in fiscal year 1964 will be located at VA center, San Juan, P.R., VA center, Des Moines, Iowa; VA hospital, Palo Alto, Calif.; VA hospital, Waco, Tex.; and VA regional office, Louisville, Ky.

Dental workloads for fiscal year 1964 are projected at a slight increase over levels experienced in fiscal year 1962 and anticipated for fiscal year 1963. The increase is associated with veterans requiring dental services in connection with treatment of their medical disabilities and is expected to continue, but without appreciable effect for the present on the overall dental workloads projected.

The estimate for fiscal year 1964 contemplates 28 additional personnel for the new audiology clinic and five-day care centers; an increment for increased drug utilization; continuance of the program for replacing worn and obsolescent equipment; an increment for increased utilization of communications and utilities; funds for initial portable equipment for consolidation of the outpatient clinic at VA hospital, Syracuse, N.Y.; minor rate increases in medical and dental fees; and an increment for paying costs of the Public Law 87–793 postal and salary rate and within-grade increases.

REPLACEMENT OF MOTOR VEHICLES

Mr. EVINS. You are asking for $975,000 for replacement of 104 passenger vehicles that are 6 years old or older with 60,000 miles. Do you absolutely need this? Do you absolutely have to have these 104 passenger vehicles replaced?

Mr. BAKER. We believe it is more economical to replace them than it is to maintain them and keep them in operation.

Mr. EVINS. You list one at Amarillo, Tex., that has been 26,000 miles. That is not too much, is it?

Mr. BAKER. It is a 1956 model and it is rather hard to maintain in good operating condition.

Mr. WISE. Mr. Evins, many of these you will find with low mileages which are essentially trucks that have been used for snowplows. I have a condition report here on any vehicle in here and I am sure that in terms of the estimated repair expense in every case it is more than advantageous to the Government to replace them.

Mr. EVINS. Now you come to Mountain Home, Tenn. You have a sedan down there that has 30,000 miles on it. They treat you mighty nice when they come down there. They give you a ride. It has 30,000 miles on it. Does it have to be exchanged or could you use it another year or two?

Mr. BAKER. That was 30,000 miles last June 30 and by the time we get around to replacing it it might have another 30,000 miles on it.

Mr. EVINS. Here is one in Kansas that has 25,000 miles on it.

Mr. JONAS. Some in there have 100,000 miles on them and they are still operating.

Mr. EVINS. The average is 60,000.

Over on the next page you have an ambulance that has 16,000 miles on it. It is stationed in Maryland. That is practically a new one, is it not?

Mr. WISE. Many of these may have been accidents and are no longer economically repairable. If there are any particular one or two——

Mr. GLEASON. I would like to inquire about one. What about the first one we show from Amarillo, Tex., a 1956 Ford sedan. This is not a truck or pickup. It only has 27,000 miles. I would like to know about that myself.

Mr. EVINS. Here is another one, 6,000, another 6,000, one 6,000 and 13,000. I think you could give us a closer look on some of your vehicles.

CANTEEN SERVICE REVOLVING FUND

We will place in the record the statement on the canteen service revolving fund.

(The material referred to follows:)

CANTEEN SERVICE REVOLVING FUND

No appropriation by the Congress will be required for the operation of the Veterans' Canteen Service during fiscal year 1964. 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 domiciliaries operated by the Veterans' Administration (38 U.S.C. 4201–08). The budget estimate in the amount of $12,777,000 for the Veterans' Canteen Service, fiscal year ending June 30, 1964 is submitted for the purpose of providing for its maintenance and operation.

The Congress originally appropirated a total of $4,965,000 for the operation of the Veterans' Canteen Service and no additional appropirations have been required. Funds in excess of the needs of the service totaling $6,900,000 have been paid to the Treasury. Funds in the amount of $40,000 will be paid to the Treasury during fiscal year 1963. Contingent upon the operating results for fiscal year 1963, and the capital requirements for fiscal year 1964, the 1964 estimate anticipates a further payment to the Treasury of $29,000.

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CAPITAL REQUIREMENTS

At the end of fiscal year 1962, there were canteens in operation at all VA hospitals and domiciliaries. Capital requirements for operation of the Veterans' Canteen Service for fiscal year 1964 are as follows:

1. Cash

(*a*) *Petty cash and change funds.*—The average sum of $834 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—$141,000.

(*b*) *At the field station depositaries.*—It is estimated that the average sum of $8,579 per canteen is necessary for the maintenance of field station depositary accounts. Total requirements—$1,450,000.

(*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 $3,364,000. This total will provide a portion of the cash for payment of outstanding accounts payable, accrued annual leave, accrued payroll, withholding taxes, retirement, unredeemed coupons, 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 should be reserved in order 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 and prepaid expenses and other assets will be $594,000.

3. Inventories—commodities for sale

(*a*) *Retail departments.*—It is estimated that a retail inventory of $4,727,000 is required for canteens in operation.

(*b*) *Food departments.*—It is estimated that a food department inventory of $289,000 is required.

(*c*) *Service departments.*—Service department inventories consist primarily of vending machine stocks. It is expected that an inventory of $20,000 is required.

4. Equipment

Capital requirements for replacement of wornout equipment and remodelings during fiscal year 1964 are estimated to be $982,000.

OPERATING RESULTS

It is expected that sales will amount to $47,157,000 in fiscal year 1964, and that a net profit of $298,000 will be realized.

PERSONNEL REQUIREMENTS

It is estimated that a total of 2,631 permanent positions and 283 full-time equivalent of all other positions will be required in fiscal year 1964, as indicated in the following tabulation.

	Actual, 1962	Increase or decrease (−), 1963 over 1962	Estimate, 1963	Increase or decrease (−), 1964 over 1963	Estimate, 1964
Central office:					
Director's office	2		2		2
Merchandising	6		6		6
Procurement	15		15		15
Accounting and auditing	14		14		14
Personnel and administrative	2		2		2
Subtotal	39		39		39
Field offices:					
Field director's office	14		14		14
Merchandising	49		49		49
Accounting	110		110		110
Subtotal	173		173		173
Canteens:					
Full-time hourly	1,726	10	1,736	9	1,745
Annual wage	257		257		257
Piece workers	417		417		417
Subtotal	2,400	10	2,410	9	2,419
Total permanent positions	2,612	10	2,622	9	2,631
Total full-time equivalent of all other positions	283		283		283
Total positions	2,895	10	2,905	9	2,914

FINANCIAL CONDITIONS

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 1964, it is expected that cash on hand and on deposit will be $6,445,000. It is estimated that accounts receivable, consisting mainly of amounts due from personal funds of incompetent patients will be $580,000. It is believed a capital investment in inventory of $5,036,000 will be required. Prepaid expenses and other assets should amount to $14,000. Current assets are estimated to total $12,075,000. Current liabilities are estimated to be $3,419,000; 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 $8,656,000.

The total budget estimate for the Veterans Canteen Service for fiscal year 1964 is made up as follows:

Total working capital	$8,656,000
Investment in equipment, net	4,121,000
Total investment of U.S. Government	12,777,000

Mr. EVINS. Congress originally appropriated a total of $4.9 million for operation of this service and no additional appropriation has been received. Funds in excess of the need of the service totaling $6.9 million have been paid to the Treasury.

Construction of Hospital and Domiciliary Facilities

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
	VETERANS' ADMINISTRATION			
11	Personnel compensation:			
	Permanent positions	2,157	2,541	2,670
	Positions other than permanent	691	666	666
	Other personnel compensation	10	11	31
	Total, personnel compensation	2,858	3,218	3,367
12	Personnel benefits	174	207	220
21	Travel and transportation of persons	88	120	120
22	Transportation of things		2	2
23	Rent, communications, and utilities	14	15	15
24	Printing and reproduction	9	12	12
25	Other services	3,785	3,900	3,400
26	Supplies and materials	528	525	525
31	Equipment	3,296	3,609	5,427
32	Lands and structures	41,016	62,596	62,795
	Total costs, Veterans' Administration	51,768	74,204	75,883
	ALLOCATION TO DEFENSE—CIVIL, ARMY			
24	Printing and reproduction		2	
25	Other services	48	419	1,895
	Total costs, defense—civil	48	421	1,895
	Total costs	51,816	74,625	77,778
	Change in selected resources	16,938	23,375	17,998
	Total obligations	68,754	98,000	95,776

Personnel summary

	1962 actual	1963 estimate	1964 estimate
VETERANS' ADMINISTRATION			
Total number of permanent positions	302	327	327
Full-time equivalent of other positions	78	75	75
Average number of all employees	353	382	382
Number of employees at end of year	380	390	390
Average GS grade	8.8	9.0	9.0
Average GS salary	$7,693	$8,328	$8,433
Average salary of ungraded positions	$8,859	$8,880	$8,880

Program and financing

[In thousands of dollars]

	Costs to this appropriation					Analysis of 1964 financing			Appropriation required to complete
	Total estimate	To June 30, 1961	1962 actual	1963 estimate	1964 estimate	Deduct selected resources and unobligated balance, start of year	Add selected resources and unobligated balance, end of year	Appropriation required, 1964	
Program by activities:									
1. Hospitals:									
(a) New	125,389	84,050	9,469	18,635	9,892	13,235	3,343		
(b) Replacement	287,986	46,112	13,776	11,037	35,846	89,655	102,639	48,830	78,576
(c) Modernization	250,040	74,212	23,315	21,968	16,411	32,637	41,514	25,288	72,620
(d) Other improvements	48,075	3,160	3,542	19,746	10,597	17,745	11,030	3,882	
2. Domiciliaries	1,886		153	1,322	411	411			
3. Regional offices and supply depots	154	33	7	114					
4. Research facilities	18,956	1,146	1,554	1,638	4,311	8,042	6,731	3,000	3,576
5. Experimental hospital facilities	500			165	310	335	25		
Total program costs, funded	732,986	208,713	51,816	74,625	77,778	162,060	165,282	81,000	154,772
Change in selected resources [1]			16,938	23,375	17,998				
Total obligations			68,754	98,000	95,776				
Financing:									
Unobligated balance brought forward (−)			−59,775	−67,271	−46,271				
Unobligated balance carried forward			67,271	46,271	31,495				
New obligational authority (appropriation)			76,250	77,000	81,000				

[1] Selected resources as of June 30 are as follows:

	1961	*1962*	*1963*	*1964*
Unpaid undelivered orders	73,473	90,558	114,033	132,131
Advances	2,003	1,856	1,756	1,656
Total selected resources	75,476	92,414	115,789	133,787

Mr. THOMAS. Let us take a look at construction. This is program 9000. Let's put pages 26–2, 3, and the table on 4 in the record.

(The pages referred to follow:)

ASSISTANT ADMINISTRATOR FOR CONSTRUCTION

INTRODUCTION

The Office of Assistant Administrator for Construction is responsible for designing and constructing Veterans' Administration facilities, which include new and replacement hospitals and modernization and improvement of existing facilities. After construction project requirements are determined by the operating departments, this office directs the construction program involving preliminary planning, budget formulation, preparation of working drawings and specifications, supervision of construction and delivery of the completed facility to the operating department.

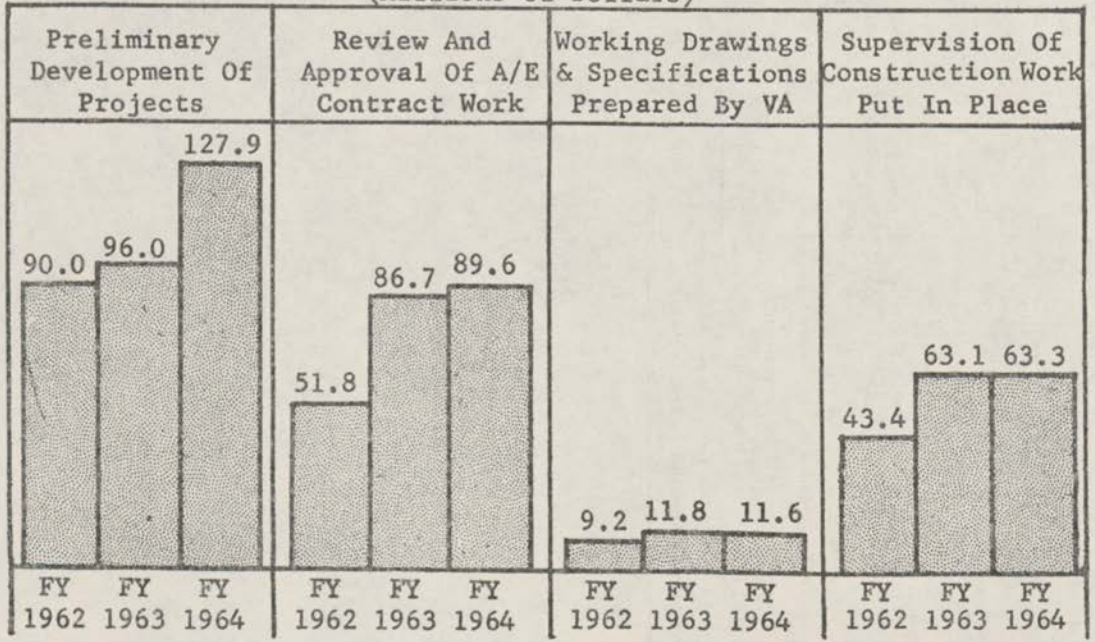
The costs of the Office of Assistant Administrator for Construction are paid from two appropriations "Medical administration and miscellaneous operating expenses" (program 1700), and "Construction of hospital and domiciliary Facilities (program 9000).

The "Medical administration and miscellaneous operating expenses" appropriation provides for architects, engineers and others who work on projects and programs being developed for appropriation and approval of funds, for salaries of those persons engaged in organizationwide or staff activities, and for related other costs.

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 personal services applicable to approved projects.

The budget requests and justification for the programs mentioned above are presented in this section to facilitate review and evaluation.

Magnitude and Scope of Workloads
(Millions of Dollars)



Summary of construction program workloads

[Millions of dollars]

Type of workload	Fiscal year 1962, actual	Fiscal year 1963, estimated	Fiscal year 1964, estimated
Manager of operations:			
(a) Preliminary development of projects:			
1. New and replacement hospitals	45.5	49.8	56.2
2. Modernization and other improvements:			
Projects costing over $0.3 million	37.6	41.2	67.7
Projects costing $0.3 million or less	6.9	5.0	3.0
Total	90.0	96.0	127.9
(b) Review and approval of architect-engineer contract work:			
1. New and replacement hospitals	19.5	59.2	52.3
2. Modernization and other improvements, projects costing over $0.3 million	32.3	27.5	37.3
Total	51.8	86.7	89.6
(c) Preparation of working drawings and specifications by VA:			
1. Modernization and other improvements:			
Projects costing over $0.3 million	4.3	6.9	6.9
Projects costing $0.3 million or less	4.9	4.9	4.7
Total	9.2	11.8	11.6
(d) Supervision of construction work put in place	43.4	63.1	63.3

Summary of average employment by activity and program

Activity	Fiscal year 1962 actual [1]			Fiscal year 1963 estimated			Fiscal year 1964 estimated			Increase (+) or Decrease (−) 1964 over 1963		
	1700	9000	Total	1700	9000	Total	1700	9000	Total	1700	9000	Total
DEPARTMENTAL												
Manager of operations:												
Manager's office	2	------	2	2	------	2	4	------	4	+2	------	+2
Project Director's office	14	------	14	19	------	19	21	------	21	+2	------	+2
A/E Contract Officer	3	5	8	2	6	8	2	6	8	------	------	------
Construction contract officer	2	------	2	2	------	2	2	------	2	------	------	------
Research staff	6	------	6	6	------	6	7	------	7	+1	------	+1
Preliminary planning service	41	------	41	44	------	44	46	------	46	+2	------	+2
Architectural structural service	8	37	45	3	42	45	3	42	45	------	------	------
Mechanical electrical service	12	34	46	3	43	46	3	43	46	------	------	------
Special service	16	25	41	16	31	47	16	31	47	------	------	------
Construction service	2	133	135	2	142	144	2	142	144	------	------	------
Subtotal	106	234	340	99	264	363	106	264	370	+7	------	+7
Other AA/C elements:												
OAA/construction	6	------	6	5	------	5	5	------	5	------	------	------
Legal advisory staff	1	1	2	3	------	3	3	------	3	------	------	------
Management division	18	------	18	18	------	18	18	------	18	------	------	------
Program control division	22	------	22	22	------	22	22	------	22	------	------	------
Safety and fire division	8	------	8	8	------	8	8	------	8	------	------	------
Real estate division	5	------	5	5	------	5	5	------	5	------	------	------
Subtotal	60	1	61	61	------	61	61	------	61	------	------	------
Total, Department	166	235	401	160	264	424	167	264	431	+7	------	+7
Field office:												
Clerical aids [2]	------	37	37	------	40	40	------	40	40	------	------	------
Hired labor [2]	------	78	78	------	75	75	------	75	75	------	------	------
Total, Field office	------	115	115	------	115	115	------	115	115	------	------	------
Grand total	166	350	516	160	379	539	167	379	546	+7	------	+7

[1] For comparison, man-years are adjusted for reorganization.
[2] Part of construction service, Field Operations Division.
[3] Capital cost, not an operating expense.

NOTE.—1700—Medical administration and miscellaneous operating expenses appropriation. 9000—Construction of hospital and domiciliary facilities appropriation.

Mr. THOMAS. We have two programs 1700 and 9000.

The 1700 program is where they get the program up to the appropriations stage. After they get the money it goes over to program 9000. They are the construction people. You have 106 in 1700 for 1962, 9000 you have 234, a total of 340. That figure goes up to 363 in 1963, and 370 in 1964, an increase of only 7.

FUNDS FROM MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

Here are your other objects on page 5. We will return to them and be looking over other services which shows a reduction of $36,700. You have a note "Objects 25–31 include costs of $35,700 and $14,000 respectively for obligations incurred, in fiscal year 1962. Funding requirements for object 25 are $1,000 less in fiscal year 1964 than in

1963, and the funding requirements for object 31 are the same in fiscal years 1963 and 1964.

Let us go 26–6. I have a note here, "Thirty-percent increase in work." (Reading:)

The estimate for 1964 is a net of $146,000 more than the estimate for 1963. Other services account for an offsetting decrease of $1,000 while personnel compensation and benefits account for an increase of $147,000.

FUNDS FROM CONSTRUCTION OF HOSPITALS AND DOMICILIARY FACILITIES

Let us put 26–8 and 9 in the record.

(The pages referred to follow:)

CONSTRUCTION OF HOSPITAL AND DOMICILIARY FACILITIES, $81 MILLION

This appropriation provides for construction of hospitals and domiciliary facilities and becomes available for use after Presidential approval of individual projects or groups of projects. The facilities may include new and replacement hospitals and domiciliaries, building sites, modernization of and other improvements at existing facilities including regional offices and supply depots and alterations and additions for medical research facilities.

A construction program of $81 million is recommended for 1964 to be financed with new obligational authority. This estimate includes the fourth increment toward financing an orderly 15-year program for replacement and modernization of our existing hospital facilities and is the estimated additional amount needed in 1964.

Further details for the amount recommended are shown in the program summary and the project listings which follow:

Program summary

Replacement hospitals	$46,630,100
Modernization	24,738,300
Other improvements	3,881,600
Research facilities	3,000,000
Restoration of funds	2,750,000
Total appropriation request	81,000,000

Replacement hospitals.—The $46,630,100 estimate for this activity includes funds for: (*a*) balance of technical services and construction, $8,793,000 for 480 beds at Gainesville, Fla.; $16,052,600 for 1,040 beds at Long Beach, Calif., phase II; $8,799,500 for 500 beds at Oteen, N.C.; and $9,685,000 for 480 beds at Temple, Tex.; (*b*) partial technical service, $1,000,000 for 1,040 beds at Los Angeles, Calif.; and $700,000 for 720 beds at San Juan, Puerto Rico; and (*c*) $1,600,000 for acquisition of a building site and partial technical services for 1,000 beds at Long Island, N.Y.

Modernization.—The $24,738,300 requested for this activity includes $16,794,800 for construction of projects for which technical services were previously appropriated and $7,943,500 for planning 8 new projects estimated to cost $60,510,400. The balance for construction for these projects, $61,858,900, will be requested for 1965 when plans are scheduled to be completed.

Other improvements.—The $3,881,600 requested for this activity for the total cost of 41 new projects.

Research facilities.—The $3 million requested for this activity includes $1,341,500 for construction of medical research facilities for which technical services funds were previously appropriated and $1,658,500 for a new list of projects estimated to cost $3,447,600. The balance, $1,789,100 will be requested for 1965 when plans are scheduled to be completed.

Restoration of funds used to finance special air conditioning projects.—Included in this appropriation request is $2,750,000 to restore part of the funds which were used, with the approval of the chairman of the House and Senate Appropriation Subcommittees, to finance the special 1962 air conditioning program. Any balance of funds which must be restored will be requested when needed.

Fallout shelter facilities.—In accordance with the stated policy to provide fallout shelters in new construction, the above estimates include: for planning and construction, Danville, Ill., (Phase V) $100,000; for planning only, Long Island,

N.Y., $16,000; Hines, Ill., (Phase I) $16,000; San Juan, Puerto Rico, $13,000; Portland, Ore., $12,000; and Seattle, Wash., $5,000.

Mr. THOMAS. Here is a good trade to work from. Here is your summary: Hospital construction, domiciliary facilities. Your whole program is $81 million this year?

Mr. GLEASON. Yes, sir.

Mr. THOMAS. That is the whole thing. Here is the way it is broken down: Replacement hospitals, $46,630,100. Where will you spend the $46 million?

Mr. MONK. 26–10, sir.

PROJECTS IN 1964 BUDGET

Mr. THOMAS. Let us insert this page showing the projects for 1964 in the record and the succeeding pages that complete the table. This shows all of your projects.

(The material referred to follows:)

Projects for which funds are requested in 1964

[Thousands of dollars]

Project location and description	Total estimated cost	Appropriations		
		Through fiscal year 1963	Fiscal year 1964 request	Future request
REPLACEMENT HOSPITALS				
Gainesville, Fla.: 480 bed new hospital, including 200 G.M. & S. beds, 40 TB beds, and 240 NP beds to meet increasing demands for beds in State of Florida. No outpatient clinic. No laundry. To be located near and affiliated with University of Florida	9,595.0	802.0	8,793.0	----------
Long Beach, Calif.—Phase II: Phase I provided for construction 561 new beds to replace part of the beds located in cantonment-type construction. Under phase II it is planned to replace the remaining 1,040 beds with permanent new construction and modernize certain existing buildings for supporting facilities. Upon completion of this phase, there will be a total of 1,601 beds, 1,461 G.M. & S. including 205 spinal cord, 120 TB, and 120 NP. The hospital also provides for outpatient treatment	17,087.6	1,035.0	16,052.	----------
Long Island, N.Y.: 1,000 bed new hospital, including 240 G.M. & S. beds and 760 NP beds, to replace approximately 800 overcrowded beds presently located at the Northport, L.I., N.Y., hospital and to provide 200 beds to meet the increasing demands for G.M. & S. treatment in this area. The site for this hospital has not yet been selected	26,827.0	----------	1,600.0	25,227.0
Los Angeles, Calif.: 1,040 bed new hospital, including 800 G.M. & S. beds and 240 NP beds, to replace 840 obsolete and overcrowded beds at the existing VA Center, Los Angeles, Calif., and to provide 200 additional beds to meet the increasing demands for G.M. & S. treatment in this area. It is planned to locate near and affiliate with the University of Southern California Medical School	23,525.0	750.0	1,000.0	21,775.0
Oteen N.C.: 500 bed new hospital, including 440 G.M. & S. and TB beds and 60 NP beds, on existing site to replace present obsolete facilities	9,737.0	937.5	8,799.5	----------
San Juan, P.R.: 720 bed new hospital to replace our existing 200 bed hospital and to reduce a substantial number of contract beds. The new hospital as proposed will include 400 G.M. & S. beds, 40 TB beds, 240 NP beds, and 40 beds for the Department of Army requirements. The plans are to locate the hospital adjacent to the University of Puerto Rico Medical Center on a site to be donated by the Commonwealth of Puerto Rico	21,097.0	----------	700.0	20,397.0
Temple, Tex.: 480 bed new hospital, including 240 G.M. & S. and TB beds and 240 NP beds, on existing site to replace present 800 bed World War II cantonment-type hospital	10,435.0	750.0	9,685.0	----------
Subtotal	118,303.6	4,274.5	46,630.1	67,399.0

Projects for which funds are requested in 1964—Continued

[Thousands of dollars]

Project location and description	Total estimated cost	Appropriations		
		Through fiscal year 1963	Fiscal year 1964 request	Future request
MODERNIZATION				
Bedford, Mass.—Phase VII: This project provides for modernization of bed buildings 62 and 70 and addition to sewage disposal plant. This is part of a continuing program for overall modernization of this hospital. Previous projects have provided for modernization of 6 bed buildings, construction of new admission and treatment building, and miscellaneous ancillary facilities. Future work will consist of modernizing bed buildings 8 and 9 and miscellaneous other work. An overall plan for remaining work is being developed	635.8	----------	57.8	578.0
Coatesville, Pa.—Phase VII: This project provides for alterations for chapel, new TEC Building, new elevators, replacement of boiler plant, and automatic fire sprinklers in 12 buildings. This is the final phase for overall modernization of this hospital. Future work will provide for air-conditioning of this hospital	3,520.5	298.0	3,222.5	----------
Danville, Ill.—Phase IV: This project provides for construction of a new240-bed NP building to replace beds presently housed in nonpermanent buildings. Previous projects provide for a new A. & T. building of 180 beds, modernization of building 58 for 235 G.M. & S. beds, and miscellaneous ancillary facilities. Future work will consist of 2 new 240-bed NP buildings, 40-bed foster home building and additional supporting ancillary facilities	2,616.8	340.0	2,276.8	----------
Danville, Ill.—Phase V: This project provides for construction of 2 new 240-bed NP buildings to replace beds presently housed in nonpermanent buildings. Previous projects provide for 2 new NP buildings for 420 beds and modernization of building 58 for 235 beds. Future work will provide for a 40-bed foster homebuilding and additional ancillary facilities	5,252.8	----------	5,252.8	----------
Fort Meade, S. Dak.—Phase IV: This project provides for construction of a new 240-bed NP building to replace beds presently housed in nonpermanent buildings. Previous projects provide for 168 beds in new construction and improvements in ancillary facilities. Future work will provide or a 20-bed foster home unit and modernization of some existing buildings for ancillary facilities	2,502.7	292.0	2,210.7	----------
Hines, Ill.—Phase I: This project provides for phase I of an overall modernization and/or replacement of facilities for a total of approximately 1,700 beds. The scope of this project and future work required will be determined by a master plan which is currently being developed	25,000.0	----------	1,000.0	24,000.0
Louisville, Ky.: This project provides for addition of 180 NP beds to replace beds which will be lost by modernization of the Lexington hospital, consolidation of outpatient clinic with the hospital, increased research, and various other adjustments in space to meet current medical criteria	6,500.0	135.3	254.7	6,110.0
Northport, N.Y.—Phase I: This is the 1st phase of an overall modernization of this hospital. Tentative plans provide for construction of a clinical wing as the 1st phase The scope of this project and future work required will be determined by a master plan which is currently being developed	4,950.0	----------	300.0	4,650.0
Palo Alto, Calif.—Phase III: This project provides for alterations to existing D.H. & K. Building No. 104 for special services and a new TEC Building. Previous projects provide for new D.H. & K. Building and modernization of buildings 101, 105, 110, 137, and 205. Future projects will provide for modernization of buildings 106, 111, 113, 202, 203, 208 and 307	1,475.0	185.8	1,289.2	----------
Palo Alto, Calif.—Phase IV: This project provides for modernization of patients buildings 111, 113, 208, and 307. Previous projects provide for new D.H. & K. Building, alterations to old D.H. & K. Building for special services, new therapeutic exercise clinic building, and modernization of buildings 101, 105, 110, 137, and 205. Future projects will provide for modernization of buildings 106, 202, and 203	485.0	----------	44.0	441.0

Projects for which funds are requested in 1964—Continued

[Thousands of dollars]

Project location and description	Total estimated cost	Appropriations		
		Through fiscal year 1963	Fiscal year 1964 request	Future request
MODERNIZATION—continued				
Perry Point, Md.—Phase III: This project provides for new boiler plant, new special activities building, connecting corridors, modernization building 17–H for D.H. & K. and P.M. & R., and rehabilitation of utility distribution system. Previous projects provide for modernization of patient buildings and improvements to sewage disposal system. Future work will consist of further improvements to building 9–H, alterations to building 80 for foster home care, and air conditioning of buildings not included under this project	5,485.8	300.0	5,185.8	----------
Perry Point, Md.—Phase IV: This project is the final phase of the modernization program and provides for improvements to building 9–H, alterations to building 80 for foster home care, and completion of air-conditioning program. Previous projects provide for modernization of patient buildings, new boiler plant, new special activities building, connecting corridors, modernization building 17–H for D.H. & K. and P.M. & R., and rehabilitation of utility distribution system	2,077.8	----------	188.9	1,888.9
Portland, Oreg.: This project provides for addition of 505 beds including 240 psychiatric beds, consolidation of outpatient clinic with hospital, increased research space, and various other adjustments in space to meet current criteria	15,844.0	----------	700.0	15,144.0
Roanoke, Va.: This project provides for a new canteen building which is necessary to relieve a very unsatisfactory condition in canteen operations, presently located in a quonset hut, prior to complete modernization of the hospital. Future work will consist of complete modernization	310.0	220.0	90.0	----------
San Francisco, Calif.—Phase III: This project provides for modernization of building 7 for canteen, chapel, and recreation, modernization of building 8 for mental hygiene clinic, alterations and additions to building 12 for research and expansion of parking facilities. Previous projects provide for alterations to D.H. & K. building 6 and addition to building 2 for clinics. Future work will consist of modernizing buildings 1, 2, 4, 5, and 6	1,365.5	124.0	1,241.5	----------
Seattle, Wash.: This project provides for addition of 250 beds, including 30 psychiatric beds, consolidation of outpatient clinic with hospital, increased research space, and various other adjustments in space to meet current criteria	6,265.0	----------	400.0	5,865.0
Tuskegee, Ala.—Phase V: This project provides for alterations to building 38 for a chapel and construction of a physical medicine and rehabilitation building. Previous projects provide for modernization of patient buildings and additional ancillary facilities. Future work will consist of construction of a new TEC building and air conditioning of the entire hospital	990.8	99.6	891.2	----------
White River Junction, Vt.—Phase II: This project provides for completion of modernization of this hospital by alterations and additions to existing buildings. Previous projects provide for construction of new administration building and miscellaneous alterations	3,500.0	185.6	132.4	3,182.0
Subtotal	88,777.5	2,180.3	24,738.3	61,858.9
OTHER IMPROVEMENTS				
Albany, N.Y.: This project provides for alterations to establish an intensive treatment unit in order to furnish better treatment for critically ill patients	26.5	----------	26.5	----------
Albuquerque, N. Mex.: To provide for alterations to building 3 to permit relocating pulmonary disease service in a closer proximity to applicable clinics	185.0	----------	185.0	----------
Baltimore (Fort Howard), Md.: This project provides for replacement of present obsolete ammonia, brine refrigeration system with modern freon equipment to insure safe dependable cold storage, conversion of ice storage refrigerator for storage of frozen foods, and renovation of 6 walk-in refrigerators	47.4	----------	47.4	----------
Chicago, Ill.: To provide for installation of a trash incinerator to eliminate present, unsightly, unsanitary, and hazardous conditions involved in the accumulation of trash for disposal by contract	56.0	----------	56.0	----------

Projects for which funds are requested in 1964—Continued

[Thousands of dollars]

Project location and description	Total estimated cost	Appropriations		
		Through fiscal year 1963	Fiscal year 1964 request	Future request
OTHER IMPROVEMENTS—continued				
Clinton, Iowa: To provide for installation of fly ash collector equipment to eliminate the discharge of fly ash from boiler plant into surrounding community	85.9		85.9	
East Orange, N.J.: To provide for installation of a water softening plant to eliminate present small units used on a rental basis and cost of descaling pipes and equipment. Based on present cost of rental equipment and descaling required, cost of project will be amortized in about 4 years	38.3		38.3	
Fargo, N. Dak.: To provide for relocation of cystoscopic room adjacent to surgical suite in order to improve working conditions which will reduce surgical risks and provide anesthesia best suited to individual type of patient	25.7		25.7	
Fargo, N.Dak.: To provide for new utility shops building and conversion of building 3 to machine storage. The engineering division now occupies 6 quonset huts which have passed their useful life expectancy	162.6		162.6	
Indianapolis, Ind. (TB): To provide for consolidation and modernization of X-ray department in order to increase operating efficiency	47.4		47.4	
Kerrville, Tex.: To provide for replace of obsolete electrical equipment with modern equipment and switchgear required to meet present-day electrical demands	50.8		50.8	
Madison, Wis.: To provide for expansion of canteen to meet increased workload as result of shift in hospital from TB to G.M	60.5		60.5	
Montrose, N.Y.: To provide for installation of elevators in existing shafts of buildings 3, 4, and 12, in order to provide service from ground floor to first and second floors necessary to meet increase in age of the type of patients being cared for	158.7		158.7	
Mountain Home, Tenn.: To provide for construction of an elevated water storage tank in order to assure adequate water supply for fire protection and other uses	100.8		100.8	
Oklahoma City, Okla.: To provide for establishment of an audiology clinic as part of the overall program to establish VA operated clinics	22.4		22.4	
Salisbury, N.C.: To provide for conversion of a present 35° refrigerator room to a 5° deep-freeze room to overcome a shortage of frozen food space	15.7		15.7	
Spokane, Wash.: To provide for alterations to establish an intensive treatment unit in order to provide better treatment for critically ill patients	16.9		16.9	
Topeka, Kans.: To provide for construction of a new chapel to replace present makeshift facilities	167.0		167.0	
Wilmington, Del.: To provide for alterations to presently unused space on 8th floor to a 35-bed nursing unit to help meet increasing need for beds in this general area	144.3		144.3	
Automatic elevator controls: Provides for conversion of elevators from manual to automatic controls in order to increase efficiency and reduce operating costs at the following hospitals. It is estimated that the cost can be amortized in 5 to 6 years:				
Ann Arbor, Mich. (4 elevators)	112.0		112.0	
Boston, Mass. (8 elevators)	224.0		224.0	
Brooklyn, N.Y (6 elevators)	168.0		168.0	
Chicago, Ill. (research) (6 elevators)	168.0		168.0	
Chicago, Ill. (West Side) (4 elevators)	112.0		112.0	
Durham, N.C. (3 elevators)	84.0		84.0	
Iowa City, Iowa (4 elevators)	112.0		112.0	
Little Rock, Ark. (4 elevators)	112.0		112.0	
Louisville, Ky. (4 elevators)	112.0		112.0	
Oklahoma City, Okla. (4 elevators)	112.0		112.0	
Omaha, Nebr. (4 elevators)	112.0		112.0	
Philadelphia, Pa. (4 elevators)	112.0		112.0	
Pittsburgh, Pa. (G.M.) (6 elevators)	168.0		168.0	
Safety and fire protection projects: To provide automatic fire sprinklers and other safety measures in various rooms and buildings to eliminate fire hazards at the following stations:				
Albuquerque, N. Mex. (building 2; exit B-20)	55.4		55.4	
Denver, Colo. (building 17)	11.3		11.3	
Fayetteville, N.C. (building 3)	13.9		13.9	
Fort Lyon, Colo. (buildings 4, 7, and 8)	10.4		10.4	
Indianapolis, Ind. (TB) (buildings 1 and T-107)	12.6		12.6	
Kerrville, Tex. (building 2)	4.6		4.6	
Northampton, Mass. (buildings 1 and 25)	36.5		36.5	
Tuscaloosa, Ala. (buildings 38, 39, 40, and 41)	42.0		42.0	

Projects for which funds are requested in 1964—Continued

[Thousands of dollars]

Project location and description	Total estimated cost	Appropriations		
		Through fiscal year 1963	Fiscal year 1964 request	Future request
OTHER IMPROVEMENTS—continued				
Communication facilities: To provide space for housing a communications electronic switching center. Information from the industry indicates that more efficient and effective service may be obtained through use of recently developed electronic switching techniques and equipment. Space to house such equipment, feasible for installation in 1964, may be provided in 1 large or 2 small switching centers. These requirements and the location are under study	75.0	----------	75.0	----------
Administrator's discretionary fund: To provide for unprogramed or urgent projects costing less than $300,000 each which in the judgment of the Administrator should not be delayed by the time required to obtain Presidential approval	500.0	----------	500.0	----------
Subtotal	3,881.6	----------	3,881.6	----------
RESEARCH FACILITIES				
Birmingham, Ala.: To provide for constructing a research addition containing 17,000 net square feet of space	1,158.2	----------	1,158.2	----------
Boston, Mass.: To provide for constructing a research addition containing 18,000 net square feet of space	1,216.9	----------	110.6	1,106.3
Bronx, N.Y.: To provide for converting 16,280 net square feet of space for research	751.1	----------	68.3	682.8
Minneapolis, Minn.: To provide for constructing a research addition containing 20,000 net square feet of space	1,475.7	134.2	1,341.5	----------
Minor research projects: To provide for miscellaneous minor research projects at various stations. Projects to be developed on basis of urgent needs	321.4	----------	321.4	----------
Subtotal	4,923.3	134.2	3,000.0	1,789.1
Restoration of funds: To restore funds used to finance the air-conditioning program	2,750.0	----------	2,750.0	----------
Total	218,636.0	6,589.0	81,000.0	131,047.0
Net appropriation request	----------	----------	81,000.0	----------

UNOBLIGATED CONSTRUCTION FUNDS

Mr. THOMAS. How much money do you have unobligated as of now? In that connection hand me the General Accounting Office criticism of the construction program.

Mr. ASHBRIDGE. We have $131 million unobligated as of now, sir.

Mr. THOMAS. $131 million as of now unobligated?

Mr. ASHBRIDGE. Yes, sir; as of December 31, 1962.

Mr. THOMAS. Do you need this $131 million? What does Mr. Campbell say?

COMPTROLLER GENERAL'S REPORT

Mr. BOLAND. You are familiar with the criticism of the Comptroller General's office with respect to the premature requests for construction appropriations. Aren't you doing the same thing here, asking for funds you are not going to use next year?

Mr. ASHBRIDGE. I am familiar with that. We feel we can use the funds we are requesting at this time.

Mr. THOMAS. Why?

Mr. BOLAND. Mr. Reporter, will you insert the statement of the Comptroller General on hospital construction for the Veterans' Administration on premature requests for construction appropriation?

(The document follows:)

REPORT TO THE COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES

(By the Comptroller General of the United States, January 1963)

VETERANS' ADMINISTRATION

HOSPITAL CONSTRUCTION

Premature requests for construction appropriation

In our report to the Congress dated July 26, 1962, on our review of selected activities under the hospital construction program administered by the Veterans' Administration (VA), we commented on the fact that the VA had included in its appropriation requests funds for designing hospitals and supervising construction, although the funds could not be obligated for several years after the appropriations were received. The funds were requested on the basis of a predetermined schedule for hospital construction. Some of the appropriated funds had remained unobligated for several years because the VA was not prepared to start the work for which the funds were requested.

We stated our belief that a request for funds to cover the cost of designing a hospital should be better coordinated with the development of hospital requirements and the preparation of preliminary design plans so that when the funds are appropriated the VA will be ready to commence the design work. We further expressed the belief that the VA should not request funds for the supervision of construction of a hospital until the agency is prepared to request funds for the actual construction of the hospital because the two activities are logically inseparable.

The VA agreed in principle with our position and stated that it would continue to refine its scheduling techniques in an effort to obtain more accurate predictions of its fiscal year fund requirements.

UNOBLIGATED CONSTRUCTION FUNDS

Mr. BOLAND. The report says—

Some of the appropriated funds have remained unobligated for several years because the VA was not prepared to start the work for which the funds were requested.

Is this still a legitimate criticism?

Mr. ASHBRIDGE. It does happen sometimes, yes, sir.

Mr. BOLAND. To what extent does it happen here? The chairman asked you for the total amount of unobligated funds and it is considerable here.

Mr. ASHBRIDGE. Yes, but of the funds that we now have unobligated we expect to obligate quite a substantial amount between now and the end of the year.

Mr. BOLAND. How much?

Mr. ASHBRIDGE. About half of that, sir.

Mr. BOLAND. Wouldn't it be better for you to ask for the funds when you are going to use them? We know you need lead time but I imagine you have funds here unobligated for projects that you appeared before this committee some years ago that you have not even spent yet.

Mr. ASHBRIDGE. That is correct, sir, because the priorities change.

Mr. BOLAND. If priorities change why don't you use the funds to construct those that are more urgent?

Mr. ASHBRIDGE. We have done that to a considerable extent.

Mr. BOLAND. You are not going to use the money for Gainesville, Fla., in 1963. How many millions are you requesting for Gainesville here?

Mr. ASHBRIDGE. We are going to open bids——

Mr. GLEASON. $8,793,000.

Mr. BOLAND. Are you going to commence building in Gainesville, Fla.?

Mr. GLEASON. Yes, sir.

Mr. BOLAND. When?

Mr. ASHBRIDGE. We are going to open bids next October.

Mr. JONAS. Excuse me, may I inquire? What are you going to do with these unobligated funds? You have about $60 million that you do not expect to obligate. Why can't you use some of that money?

Mr. ASHBRIDGE. That is all earmarked for certain specific jobs. We are going to obligate in this year the money for the Charleston hospital, for the Atlanta hospital, and those are quite sizable amounts. Then we are designing.

Mr. THOMAS. What period are you talking about, 1963 or 1964?

Mr. ASHBRIDGE. In the current fiscal year, sir.

Mr. THOMAS. At the end of this fiscal year what part of that $131 million will you have obligated?

Mr. GLEASON. About half of it.

Mr. JONAS. Are you planning to obligate the other half in 1964?

Mr. ASHBRIDGE. Not all of it.

Mr. GLEASON. It will be increased, Mr. Jonas, in 1964.

Mr. JONAS. I am talking about what you have on hand now already appropriated.

Mr. GLEASON. I understand that, sir.

Mr. JONAS. Where will you obligate the other $80 million? Do you have a list of the projects?

Mr. GLEASON. I can tell you right now where $40 million of it is going and that is the air-conditioning of hospitals that has been determined best for patient care throughout the country.

Mr. JONAS. I think we need a little more detailed information on that.

Mr. ASHBRIDGE. I have this which I can supply for the record.

Mr. THOMAS. Read it into the record.

Is that in our justifications?

PLANNED CONSTRUCTION OBLIGATIONS IN 1963

Mr. ASHBRIDGE. No, sir. These are the estimated obligations for 1963: Atlanta, Ga., 587-bed hospital, $11,800,000; Battle Creek, Mich., alterations, $294,000; Bonham, Tex., air-conditioning, $282,000; Charleston, S.C., 500-bed hospital, $9,550,000; Cincinnati, Ohio, air-conditioning, $1,407,000; Dallas, Tex., alterations, $520,000; East Orange, N.J., 200-bed restoration center, $1,577,000; Fort Harrison, Mont., alterations, $635,000; Gulfport, Miss., rehabilitate electrical system, $325,000; Houston, Tex., seventh floor addition, $521,000; Kansas City, Mo., research project, $352,000; Lake City, Fla., alterations, $1,170,000; Memphis, Tenn.——

Mr. JONAS. Right there, may I interrupt you?
Mr. ASHBRIDGE. Yes, sir.
Mr. JONAS. What will that consist of?
Mr. ASHBRIDGE. Memphis, Tenn.?

LAKE CITY, FLA., HOSPITAL

Mr. JONAS. No, Lake City, Fla.
Mr. ASHBRIDGE. Alterations to buildings 62 and 64.
Mr. JONAS. I thought that was one we were going to abandon.
Mr. GLEASON. No, sir.
Mr. JONAS. How close is it to Gainesville, Fla., where you are building a brandnew hospital?
Mr. GLEASON. About 70 to 80 miles, I think.
Mr. JONAS. About 50, is it not?
Mr. GLEASON. If you know—I do not know the exact mileage, Mr. Jonas.
Mr. JONAS. How close is it to the nearest medical school?
Mr. GLEASON. The nearest medical school is Gainesville, Fla.
Mr. JONAS. It is about the same amount you had previously appropriated for Bay Pines, yet you freeze that money but you are going to spend $1.7 million at Lake City?
Mr. GLEASON. Yes, sir.
Mr. JONAS. How do you justify that?
Mr. GLEASON. As I mentioned to you last year, Mr. Jonas, if we were now to be considering Lake City, Fla., we would never build a hospital there. Within the last 5 years there has been a great substantial amount of money spent on Lake City, Fla., and I just do not want to lose out on the efficiency and economics of giving up Lake City at this time. I think the time will come, Mr. Jonas, when this hospital should be replaced and it should not be replaced in Lake City.
Mr. JONAS. In the meantime, you are spending $1.7 million on it in 1 year.
Mr. GLEASON. This is a continuation of the modernization program that began some time ago. The modernization program has been underway at Lake City, Mr. Jonas, for the last 4 or 5 years, and this is the last phase of it.
Mr. JONAS. It is a little strange to me that you would spend that much money on a rehabilitation program for a hospital that is remote from any medical center, in view of your previous decisions with respect to Bay Pines.
Mr. GLEASON. Well, Mr. Jonas, as you will recall from the testimony here today there are only 94 medical schools in the United States and we have 169 hospitals, so each hospital cannot be built adjacent to a medical school; but where they can be, we get better treatment for the medical patients.
Mr. EVINS. How much is your investment in your Lake City hospital today?
Mr. GLEASON. I really couldn't say.
Mr. SCHWEICKART. We can supply that for the record.
Mr. EVINS. How much?
Mr. ASHBRIDGE. We will supply it.

(The information supplied follows:)

General Services Administration records show the value of the Lake City VA Hospital as $6,087,000, which takes into account modernizations accomplished costing $4,210,546. The current phase of modernizations presently under construction will cost $1,881,500.

GAINESVILLE HOSPITAL

Mr. THOMAS. There is some $47 million here in a half a dozen projects. Let us expand a little on some of them.

Here is Gainesville, 480 beds, at a total cost of $9.6 million and you have already had $802,000 for sites and planning money.

What is that going to cost per bed?

Mr. ASHBRIDGE. Approximately $20,000, sir.

Mr. THOMAS. That is the most inexpensive hospital on the list.

Is that a contractor's estimate?

Mr. ASHBRIDGE. This is our estimate.

WASHINGTON, D.C., HOSPITAL

Mr. THOMAS. You built a hospital here in the District of Columbia recently. How many beds were there?

Mr. ASHBRIDGE. 710.

Mr. THOMAS. What did that hospital cost you?

Mr. ASHBRIDGE. $17.5 million. That ran somewhat over our estimate, sir. Others are under.

Mr. THOMAS. How much funds were appropriated for it? Almost $19 million, wasn't it?

Mr. ASHBRIDGE. $19,319,500.

Mr. THOMAS. Couldn't you have built that good 700-bed hospital and cut out a lot of frills and things, couldn't you have built that for a lot less money? In other words, you had that much money and you spent it.

Mr. ASHBRIDGE. This is a teaching hospital and this has a great many more facilities.

Mr. THOMAS. It is still a hospital. You can come up with variations and always justify it. Is there any hospital out there close to it that is that expensively built with private funds? If you had $25 million you would have spent that. Why couldn't you have reduced it? How many beds is it?

Mr. ASHBRIDGE. 710 beds.

Mr. THOMAS. And you say it is a teaching hospital. Your original estimate was $17 million. Who was your architect?

Mr. ASHBRIDGE. Edwin A. Keeble & Associates of Nashville and Eggers & Higgins of New York. This hospital also has regional office clinic facilities in addition to the 710 beds.

Mr. JONAS. Why do you need two architects?

Mr. ASHBRIDGE. It is a joint venture. That happens quite frequently.

Mr. THOMAS. I am glad we didn't have three. It would have cost $25 million.

ARCHITECT FEES

Mr. JONAS. What do you pay the architect?
Mr. GLEASON. Generally 5 percent of the estimate.
Mr. THOMAS. You don't get any at less than 6, do you?
Mr. GLEASON. Yes, sir; we do.
Mr. THOMAS. Do you have any less than 5?
Mr. ASHBRIDGE. Yes; but on a small job like some of these air-conditioning jobs it may run a little bit over 5.

LONG BEACH, CALIF., HOSPITAL

Mr. THOMAS. Look at the one at Long Beach. Phase I provided for construction, 561 beds to replace part of the beds located in the cantonment-type construction. Under part II it is planned to replace the remaining 1,040 beds.

You already have the land. You are not buying the land. What you are building is virtually a brandnew thousand-bed hospital. You are spending how much for it? $17 million, and you have the land, you have the utilities. How much is that a bed?

Mr. ASHBRIDGE. About $17,000.

SAN JUAN, P.R., HOSPITAL

Mr. THOMAS. Here is one at San Juan, P.R., 720 beds, to replace an existing 200-bed hospital. The new hospital as proposed will include 700 G.M. & S. beds, 40 TB beds and 240 NP beds. They plan to locate it adjacent to the University of Puerto Rico Medical Center and that is fine.

You have a figure here of $21 million. How much is that per bed?

Mr. ASHBRIDGE. That is almost $30,000 a bed.

Mr. THOMAS. You do not miss it far. You own the land, you have the utilities there. What in the world could justify your putting $30,000 per bed in the hospital?

Mr. ASHBRIDGE. We shall have to put in the utilities but the large amount of that cost is in shipment of materials from the continental United States to the island of Puerto Rico.

Mr. THOMAS. We went through the same thing in the Philippines. They wanted $15 million to build a hospital over there. The costs on it—that was before your day—and I think it was $9.4 million used and you built the best hospital on the island. You reduced the cost 40 or 50 percent.

COMPTROLLER GENERAL REPORT ON VA CENTER, LOS ANGELES

Will you insert at this point in the record the Comptroller General's criticism of the large installation at Los Angeles where they spent about $75,000 remodeling the manager's home?

(The material referred to follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., January 22, 1963.

To the President of the Senate and the Speaker of the House of Representatives:

Herewith is our report on the review of the renovation of housekeeping quarters No. 23 at the Veterans' Administration Center, Los Angeles, Calif.

Our review disclosed that, in calendar year 1961, housekeeping quarters No. 23—a dwelling over 80 years old designated as the station director's residence—was renovated and modernized at a cost which we estimate to be at least $73,000. We were advised that about 25 patients worked an estimated 5,000 hours on this project on such tasks as removing plaster from the walls and gutting the inside of the dwelling. The cost of patient labor is not a part of the cost estimate of $73,000. In view of the age, seriously deterioriated condition, and obsolete design of this dwelling, we believe that the decision which resulted in the expenditure of large sums of money to restore it to acceptable condition was unsound. We noted that the alternatives to renovating this building were not adequately explored to determine whether the most effective use of Government funds would be made. In addition, the renovation was erroneously classified by the local Veterans' Administration officials as maintenance and repair work and was financed with station operating funds rather than being properly classified as a construction project which would, under Veterans' Administration central office policy, have required the review and approval by the central office and the Bureau of the Budget.

The Veterans' Administration, in commenting on our findings, advised us in a letter dated September 28, 1962, that the renovation of housekeeping quarters No. 23 was an unwise expenditure and an apparent circumvention of its requirements concerning construction or renovation projects of this magnitude. The Veterans' Administration has agreed that there is a need for tightening policies and procedures to assure more effective management controls and that policies and procedures for controlling total financing of repairs, maintenance, improvements, alterations, and renovations from station operating funds will be improved.

Copies of this report are being sent to the President of the United States and to the Administrator of Veterans' Affairs.

RALPH CAMPBELL,
Comptroller General of the United States.

Mr. THOMAS. The need is great in the California area. I think the committee ought to go out there and go over the situation with the managers—they are intelligent men—and see about the figure of $30,000 per bed. I think $18,000 or $20,000 per bed would build them a fine hospital, much better than the average hospital in the United States today.

Mr. GLEASON. Well, Mr. Chairman, I would like to ask the——

CONSTRUCTION COST ESTIMATES

Mr. THOMAS. These are inhouse estimates. There is no contractor's bid and we certainly can reduce these estimates 10 to 20 percent—with the exception of some that ought to be reduced more than that—and you will come up with a good hospital.

Mr. BOLAND. Could we get some information from you with respect to how successful the bidding has been over the past year or so?

Mr. ASHBRIDGE. Certainly.

(The information supplied follows:)

Comparison of working drawing estimates and construction contract amounts (major construction contracts awarded between July 1961 and January 1963)

[In thousands of dollars]

Location	Description	Bid opening date	VA or AE working drawings estimates	Number of bidders	Construction contract amounts
East Orange, N.J.	200-bed restoration center	Jan. 8, 1963	$1,490	11	$1,577
Kansas City, Mo.	Animal research laboratory	Dec. 11, 1962	314	5	352
Philadelphia, Pa.	Air-condition building No. 1, etc.	Aug. 21, 1962	1,375	4	1,552
Cincinnati, Ohio	Air-condition building No. 1	Aug. 7, 1962	1,074	6	1,407
Wilmington, Del.	Air-condition hospital	do	800	5	954
Shreveport, La.	Air-condition buildings Nos. 1 and 4.	June 19, 1962	1,125	4	1,156
Battle Creek, Mich.	Alterations, receiving building: close and heat corridors.	do	300	4	293
Muskogee, Okla.	Modernize kitchen and dining hall, building No. 24.	do	389	2	431
San Francisco, Calif.	Addition, building No. 2—hospital RO clinic.	do	4,057	5	4,296
Baltimore, Md.	Air-condition hospital	June 12, 1962	816	12	857
Bonham, Tex.	Air-condition building No. 1	June 5, 1962	307	8	282
Altoona, Pa.	do	do	647	2	650
Wood, Wis.	New hospital, 1,264 beds	May 29, 1962	22,818	7	23,418
Wilkes-Barre, Pa.	Air-condition buildings Nos. 1, 8, and 21.	May 22, 1962	1,148	4	1,065
North Little Rock, Ark.	New chapel	May 15, 1962	280	3	234
St. Cloud, Minn.	do	Apr. 17, 1962	176	5	176
Lebanon, Pa.	do	do	196	9	173
Danville, Ill.	New boiler and alterations building No. 58.	Apr. 24, 1962	3,260	3	3,175
Knoxville, Iowa	New chapel	Mar. 20, 1962	215	4	202
Des Moines, Iowa	Modernize electric distribution system.	Feb. 27, 1962	3,261	10	2,963
Palo Alto, Calif.	Modernize buildings (7)	Jan. 30, 1962	3,311	8	3,322
Sepulveda, Calif.	Animal research laboratory	Jan. 16, 1962	206	3	232
Coatesville, Pa.	Alterations buildings Nos. 3 and 15, engineering building No. 70.	Aug. 1, 1961	509	9	506
Biloxi (Gulfport) Miss.	Alterations, buildings Nos. 1, 63, and 117.	July 11, 1961	1,039	2	1,248
Total (24 projects)			49,113	135	50,521

Mr. BOLAND. Do you have any figures on whether or not you can build it for more or less than you anticipate?

Mr. ASHBRIDGE. Certainly, and we will also furnish that.

(The information supplied follows:)

Summary of financially completed projects, July 1960–August 1962

[Dollars in thousands]

Cost range	Number of projects	Budget request [1]	Actual cost
$300,000 and under	244	$12,057	$10,221
Over $300,000	34	74,586	71,526
Total	278	86,643	81,747

[1] These represent "magnitude or in-house estimates" which were made without the benefit of preliminary plans or working drawings. Savings are used to offset succeeding appropriation requests. For example, $2.9 and $2.4 million used to reduce the 1962 and 1963 appropriation requests respectively.

Mr. ASHBRIDGE. I have the figures on some hospitals we have let out for construction recently.

Mr. THOMAS. If you will tell your architect you have $10 million to spend on a hospital he is going to give you $10 million worth of plans. If you tell him you have $8 million to spend on a hospital he will give you that type of plan.

Mr. GLEASON. This isn't quite true, Mr. Chairman, because the Bureau of the Budget goes over this pretty thoroughly.

Mr. THOMAS. Tell me where I am wrong.

UNOBLIGATED CONSTRUCTION FUNDS

Mr. GLEASON. Last year we discussed here at the committee meeting the unobligated funds. At that time I made the statement that by the time we met here this year, that that unobligated balance would be down by the end of the fiscal year. It will be down lower than it was the previous year. I would just like to inform the committee that the unobligated balance as it is shown here for 1964 will be reduced quite a bit. If you will just give me a little opportunity for the next 2 years, I am sure you will be most satisfied with the work we will accomplish in that period.

Mr. THOMAS. This is just to take care of the criticism of the General Accounting Office.

Mr. BOLAND. Are you prepared to start work for which you are requesting funds? How soon can you start work with the $46 million in replacement hospitals?

Mr. GLEASON. Most all of that will be obligated, Mr. Boland, in fiscal year 1964.

Mr. BOLAND. You are prepared to start all the work for which you are requesting funds in the fiscal year 1964 budget?

Mr. ASHBRIDGE. Yes, sir, that is our plan.

Mr. JONAS. Is it also your plan to obligate all existing balances in fiscal year 1964?

Mr. GLEASON. No, this would be almost impossible, Mr. Jonas, but I am fairly confident that by 1965 the unobligated balance will be down practically to zero.

Mr. JONAS. The unobligated balances on hand now are for projects that were funded by appropriations previously made?

Mr. GLEASON. That is correct, sir.

Mr. JONAS. What you are planning to do is to superimpose this 1964 program and put it ahead of previous programs?

Mr. GLEASON. No, sir. I don't mean to say that at all. Many of the unobligated project funds that we now have on hand will also be contracted in 1964.

Mr. MONK. Mr. Jonas, if you will look at 26–16 you will see that we plan to have our unobligated balance at the end of fiscal year 1964 down to $31 million.

Mr. GLEASON. This is a lot different, Mr. Jonas, than the $131 million that we referred to earlier.

Mr. JONAS. That is not my point. My point is you are going to carry over $31.5 million in previous appropriated funds that you have not obligated. Yet you just told Mr. Boland that you are prepared

to obligate this entire $46 million program for 1964. So you are bound to have skipped over some previously funded projects.

Mr. GLEASON. That is correct, sir, and I hope you don't mind my saying it, but this was before I became Administrator and now that I am Administrator I am going to make sure that it is done.

Mr. JONAS. You are not explaining why you don't obligate the funds you already have on hand before you asked for $46 million new money. You cannot charge that up to your predecessor.

Mr. GLEASON. No, I do not mean to say that, Mr. Jonas. The thing is that some of this work has been held back and we are going to rush through and see that it is obligated in 1964.

Mr. JONAS. Please do not misunderstand me. I am not insisting on your obligating it.

Mr. GLEASON. Well, Mr. Jonas, as I hope you will—I rather hope you were insisting on it because this is construction that we vitally need.

Mr. JONAS. I am asking you to justify asking us to put up $46 million in new money when you already have on hand $31 million that you don't even plan to obligate.

Mr. GLEASON. When you say we don't plan to obligate it, Mr. Jonas, that is not quite correct.

Mr. THOMAS. What you mean is that by the end of 1964 you will still carry over $31 million unobligated?

Mr. GLEASON. By the same token though, Mr. Chairman, by September of fiscal year 1965 most of that $32 million will also be obligated. An important thing to us is that whether it is June or July it makes a difference in the fiscal year in which it is contracted.

HOLDING CONSTRUCTION COSTS WITHIN AVAILABLE FUNDS

Mr. THOMAS. Here is what we want to impress upon you, Mr. Administrator. You set out these projects. We do our best to comb them over and come to some judgment on it. We give you "X" amount of dollars for that project. We expect you to do it exactly for that amount of money. If you have to reduce your plans, reduce them. We don't want you coming back here 2 years from now saying you have an overrun. We expect you to stay current enough with your plans and with your contracting fraternity so that when you let a plan it is going to be just this way and there will be no overruns or anything else. You have four or five programs here. You have a lot of them here under $300,000 and no doubt these are quite important. You are letting them accumulate. There is bound to be some reason for accumulation. Is it lack of staff or what is the trouble?

Mr. DRIVER. There are many reasons, depending on the type of project. We have some cases we throw out and start over again when the bids come in.

Mr. THOMAS. Why do you do that?

Mr. DRIVER. We are not satisfied with what we got on the bids. It seems in a program as big as this, $70 million, $80 million, $90 million a year, that the carryover which is automatically established because of an arbitrary June 30 date, is always going to be off some millions of dollars. But, as Mr. Gleason indicated, right after the first of the year you may soon obligate it. And we won't be back to

see you in time to get that money if we get down to zero each year, and that means that we will slow down the requirements people, we will slow down Mr. Ashbridge's people, because we cannot plan on the projects.

FUNDS FOR AIR CONDITIONING

Mr. THOMAS. Do you ever do a project for less than what you originally estimated it for?

Mr. ASHBRIDGE. Yes, sir, we do; and we have been able to fund quite a bit of our air-conditioning projects from savings from other things.

Mr. THOMAS. You alluded to that. How much have you spent on air conditioning?

Mr. GLEASON. We plan a total of about $40 million.

LONG-RANGE MODERNIZATION PROGRAM

Mr. EVINS. Several years ago we started on an 8- or 10-year modernization program. What year is this since that program was started?

Mr. GLEASON. This is the fourth year. The Bureau of the Budget, Mr. Evins, because of cost increases in construction and materials and some additional construction not included in the original plan, have now agreed to a total of $1.3 billion instead of $900 million.

VARIATION IN CONSTRUCTION COST PER BED

Mr. THOMAS. Explain the variation in these two projects. Here is one in Long Island, a thousand-bed new hospital including 240 G.M. & S. beds and 760 NP beds to replace approximately 800 beds existing in a hospital where you have the land, you have the streets, you have the grading and everything in there, and the cost will be $26,827,000. How much is that a bed?

Mr. ASHBRIDGE. $26,800 a bed.

Mr. THOMAS. Here is one in Los Angeles. A 1,040-bed hospital including 840 G.M. & S., and they are a little bit more expensive than your TB, and your NP beds, aren't they?

Mr. ASHBRIDGE. Yes, sir.

Mr. THOMAS. To replace an old hospital of 840 beds and to provide 200 additional beds, and it is going to be close to the University of California and that makes a lot of good sense. You come up with an overall figure of $23,525,000.

Mr. ASHBRIDGE. These are all trended according to the location. We use the Boeckh Index, which takes into account the difference in labor and material costs in various parts of the country. We have an overall national average square foot cost——

Mr. THOMAS. California is supposed to be a high-cost area.

Mr. GLEASON. But there are many materials, I might mention, Mr. Chairman, that go into a hospital in the State of New York that wouldn't go in necessarily on the same basis in Los Angeles. One, for example, is heat.

Mr. ASHBRIDGE. And perhaps air-conditioning, because I believe Los Angeles may not be air-conditioned.

Mr. THOMAS. Let us look at the one at Temple, Tex. This is a 480-bed new hospital including 240 G.M. & S. and TB beds and 240 NP beds. Some of it is high-priced construction and you have a cost here of $10.5 million. How much is that?

Mr. ASHBRIDGE. That is a little over $20,000 a bed.

Mr. THOMAS. A little over $21,000 a bed, and less than half of them are G.M.S.

Can't you reduce that cost here 15 to 18 or 20 percent and come up with a good substantial hospital that will last 50 or 75 years?

Mr. ASHBRIDGE. Sir, we have been attempting to reduce the costs as much as we can, bearing in mind the maintenance——

Mr. THOMAS. Cut out the waste space, cut out some of the offices and some of the lobbies on the ground floor. If you look up and down the hall there are 20 or 40 offices. What in the world you need with them, I don't know. Some fellow has a title in there as long as my recollection, and that is pretty long, and he has two or three rooms.

Mr. GLEASON. I know, Mr. Chairman, that the committee is interested in having physicians of the highest grade. It is rather difficult for them to do work in a generally open room. If they do not have an office in which they can do it—it is the same for examinations and——

Mr. THOMAS. That is true, but you are not talking about physicians. You have a man here with a long title, "Social Services," and so forth.

Mr. GLEASON. That is a very important thing to us, Mr. Chairman, the social services.

Mr. THOMAS. I can figure out 15 or 20 other titles just about like it before you get through.

Mr. EVINS. I personally don't think you can build them all like Army barracks hospitals, Mr. Chairman. They have to have a little variety.

Mr. THOMAS. When you go to thinking about $20,000 a bed, up to $30,000, you certainly don't have barracks-type construction.

Mr. GLEASON. There may well be the difference, as I tried to mention. Between California and New York, just the heating equipment necessary for hospital in New York is a great deal different than the same type of heating equipment for a hospital in Los Angeles of the same size.

Mr. THOMAS. This is nothing comparable to that.

Mr. GLEASON. Well, it is a couple millions of dollars, Mr. Chairman.

MODERNIZATION PROJECTS

Mr. THOMAS. Here is your modernization program. You have 18 projects. What do they cost?

Mr. ASHBRIDGE. These vary according to the complexity of the modernization.

Mr. THOMAS. What is the sum total that you have set out here?

Mr. ASHBRIDGE. $24,730,000.

Mr. THOMAS. Haven't you a table here for that?

Mr. ASHBRIDGE. It starts on page 26–11 and it finishes on page 26–12.

Mr. THOMAS. That is not what I want. You have another one here.

Mr. ASHBRIDGE. We have a summary of the appropriations on pages 26–8 and 26–9.

Mr. THOMAS. Let us see what 26–3 does. This shows the workload for preliminary development of projects.

New and replacement hospitals are $56 million. Modernization projects costing over $300,000 show $68 million.

Now, your modernization and other improvements, over $300,000, what are they, 18?

Mr. ASHBRIDGE. Eighteen.

Mr. THOMAS. Now your projects under $300,000, how many are they?

Mr. ASHBRIDGE. Forty-one.

Mr. THOMAS. You have 66 projects here with a total cost for fiscal year 1964 of how much money?

Mr. ASHBRIDGE. $81 million. That includes five research projects on page 26–15 and restoration of funds for last year's air-conditioning program.

Mr. THOMAS. What do you have set out here on page 26–3, your breakdown?

Mr. SCHWEICKART. That is a listing of the projects for which we shall prepare the preliminary plans.

Mr. THOMAS. In other words, none of this money is included in the fiscal year 1964 budget. That is a part of your $136 million unobligated.

Mr. SCHWEICKART. Some of it is. This will be a cross section of all of the outstanding work, depending on the projects for which we develop preliminary drawings this year. This is a workload figure.

Mr. THOMAS. You have 41 modernization programs under $300,000, and they are set out on pages 26–13 and 26–14.

What is the nature of these?

I notice you are building one or two chapels in there.

Mr. ASHBRIDGE. Yes, sir.

Mr. THOMAS. What are the chapels costing you a square foot?

Mr. ASHBRIDGE. About $30.

Mr. THOMAS. That is pretty high construction cost, isn't it?

Mr. ASHBRIDGE. That includes air conditioning——

RESEARCH FACILITIES

Mr. THOMAS. You are building four or five additions or separate constructions anywhere from 20,000 to 30,000 square feet each for research laboratories.

Mr. ASHBRIDGE. Sir, our research facilities are on pages 26–15—there are $3 million worth.

Mr. THOMAS. They are included in this appropriation and are not under medical care.

Mr. ASHBRIDGE. That is correct, sir.

Mr. THOMAS. The five are Birmingham, Boston, Bronx, Minneapolis, and minor research projects.

Mr. ASHBRIDGE. There are five items here. There are four good-sized jobs and the last item includes several smaller ones.

Mr. THOMAS. Here is one at Minneapolis costing $1,475,000. How much is that a square foot?

Mr. ASHBRIDGE. $46 at the Bronx.

Mr. THOMAS. What is this one at Minneapolis?

Mr. ASHBRIDGE. $73.79.

Mr. THOMAS. Why does it cost so much to build these buildings?

Mr. ASHBRIDGE. They have a great many mechanical things in there that we have to provide. Also electrical services, air conditioning, and so forth.

Mr. THOMAS. This is not equipment cost, this is just construction.

Mr. ASHBRIDGE. We include fixed equipment like laboratory benches and cabinets. Then there are vacuum piping, gas piping, pyrex glass acidproof drain piping, and so forth.

Mr. THOMAS. You are getting up into a lot of money, $73 a square foot. And these are in-house estimates?

Mr. ASHBRIDGE. Yes, sir.

Mr. THOMAS. Let us take a look at "Other objects" on 26–17.

This is a construction program. This is your other objects set out that apply exclusively to that 9,000 program?

Mr. ASHBRIDGE. Yes, sir.

Mr. THOMAS. That is nothing but the construction program.

CONSTRUCTION EMPLOYMENT

What did you have in your 1700 program? How many employees?

Mr. ASHBRIDGE. In our 1700 program—167.

Mr. THOMAS. Is that the field and District, too?

Mr. ASHBRIDGE. These are all in the District of Columbia.

Mr. THOMAS. How many do you have in the field on this program?

Mr. ASHBRIDGE. None on the 1700 program.

The ones in the field are the resident engineers, field clerks and hired labor on the 9000 program.

Mr. THOMAS. What do you mean by hired labor? Are these consultants, or what?

Mr. ASHBRIDGE. No, sir; these are people who actually do the work. On some of our jobs in operating hospitals where it is difficult to have a contractor come in unless you disrupt the flow of medical treatment, we do the work on a purchase and hire basis. We buy the materials, we hire the craftsmen and do the work with our own foremen, under our supervision.

Mr. THOMAS. It is contract personnel you are talking about, then?

Mr. ASHBRIDGE. No, sir. These are our own.

Mr. THOMAS. Force account?

Mr. ASHBRIDGE. That is correct.

Mr. THOMAS. Personal compensation and benefits. You have a little increase there. That is statutory?

Mr. ASHBRIDGE. Yes, sir.

Mr. THOMAS. Travel and transportation is $120,000 for this year and last year. That is up about $32,000 over 1962. Why that much money for travel?

Mr. ASHBRIDGE. We spent $64,000 so far in the first half of this fiscal year. We have a larger program.

TOTAL CURRENT PROJECTS

Mr. THOMAS. How many projects are you working on now?
Mr. ASHBRIDGE. We have over 100 projects.
Mr. THOMAS. Over and under $300,000, both programs?
Mr. ASHBRIDGE. We have over a hundred projects in operation.
Mr. THOMAS. How many are over $300,000 and how many under $300,000?
Mr. ASHBRIDGE. About half and half.

EQUIPMENT

Mr. THOMAS. Gentlemen, look at this equipment. What is this equipment item? Where is that broken down? It is up $1,818,000.
Mr. ASHBRIDGE. That is an addition over last year's amount. This is equipment that goes into the hospitals, initial portable equipment for some projects and fixed equipment that is purchased by the VA and placed in the hospitals under the construction contract.
Mr. THOMAS. What is the nature of it?
Mr. ASHBRIDGE. Laboratory benches, all sorts of built-in equipment, sterilizers, X-ray equipment, et cetera.
Mr. THOMAS. What part of the portable equipment does this appropriation bear?
Mr. ASHBRIDGE. In this table of obligations there is money listed from previous years for initial portable equipment, such as at Oteen, where we have $229,000. That is an old project that started several years ago.
Mr. THOMAS. You made some change in your initial portable equipment. Tell us about it.
Mr. ASHBRIDGE. It is all covered by Medical Care except for projects funded by earlier appropriations.
Mr. THOMAS. Listen to this. He has changed his program. It is now charged under medicine rather than under construction?
Mr. ASHBRIDGE. That is correct. It used to be that we included the initial portable equipment in the construction appropriation.
Mr. THOMAS. How much are you asking for that equipment?
Mr. WISE. $1,540,000.
Mr. THOMAS. This covers all of them?
Mr. WISE. Yes, sir.
Mr. THOMAS. What is the nature of the portable equipment?
Mr. WISE. New beds, desks, typewriters, medical equipment.
Mr. THOMAS. Have you already bought them?
Mr. WISE. Not the 1964 yet.
Mr. THOMAS. Are they in storage in California? You buy them 3 years before you need them and pay rent to store them. How much do you have in inventory now in the big warehouse in Wilmington?
How many mattresses and beds do you have? One time we were out there and you had equipment stored for 3 years waiting to build a hospital in which to use it. Have you been doing that recently?
Mr. WISE. No, sir. We do not do that now.
Mr. THOMAS. What did the GAO say about it?
Mr. WISE. They never commented on that.

UNOBLIGATED CONSTRUCTION BALANCES

Mr. GLEASON. Mr. Chairman, I could refer to 26–17, on the unobligated balances brought forward.

Mr. THOMAS. I thought you and Mr. Boland decided that a while ago.

Mr. BOLAND. He has a fine table on 26–17. We ought to get in on the qualitative balance.

Mr. GLEASON. So by the end of 1964, estimated unobligated balance will be down to $31 million and by the end of 1965 I am confident it will be eliminated almost entirely.

Mr. THOMAS. This table is the one we have been working on, 26–17. You show an increase here of $4 million.

Mr. MONK. In the appropriation.

Mr. THOMAS. Yes. You show at the end of 1964 the figure of $31.5 million unobligated.

Mr. GLEASON. Yes, sir.

Mr. THOMAS. Is it necessary you carry that over 18 months?

Mr. DRIVER. It won't be 18 months.

Mr. GLEASON. It would not be, sir. For example, at the end of this year if I might mention, we are obligating in the fiscal year 1963, $98 billion; in 1964 we are going to obligate $95,776,000, with the $81 million that we hope that you will appropriate for us, which will reduce our unobligated balance to $31.5 million and by the following year it will almost be gone.

Mr. THOMAS. May we request a change in your budget next year where it will be less burdensome on you and more understandable to the committee? Give us your new projects, what they are going to cost, those in process, over and under $300,000, what appropriated funds you have, what your contract cost is, and show us on each project what your overrun is or your unobligated balance. We can see it clearly then.

Mr. JONAS. Mr. Chairman, will you yield?

Mr. THOMAS. Yes.

PROJECTS COMPOSING UNOBLIGATED BALANCES

Mr. JONAS. I would like to have at this point in the record a table showing the projects represented by these current unobligated balances and the projects you expect to have unobligated for at the end of 1964.

Mr. ASHBRIDGE. Sir, I have the estimated unobligated balances for 1962, 1963, and 1964 broken down, also estimated obligations for 1963 and 1964 in detail.

Mr. JONAS. Give it to the reporter. Is it by project?

Mr. ASHBRIDGE. Yes, sir.

Mr. JONAS. With the chairman's permission, I would like to have that in the record.

(The information supplied follows:)

Construction of hospital and domiciliary facilities appropriation estimated unobligated balance, June 30, 1962

[Thousands of dollars]

	Total	Technical services	Construction	Site	IPE
A. New hospitals:					
1. Washington, D.C	$710	$227	$328		$155
2. Brecksville, Ohio	388	17	112		259
3. Cleveland, Ohio	898	233	427		238
4. All other financial actual projects	86	33	8		45
Subtotal, new hospitals	2,082	510	875		697
B. Replacement:					
1. Atlanta, Ga	795	786		$9	
2. Bay Pines, Fla	1,722	1,722			
3. Charleston, S.C	10,553	610	9,943		
4. Downey, Ill. (phase I)	127	14	84		29
5. Gainesville, Fla	13			13	
6. Jackson, Miss	161	21	90		50
7. Long Beach, Calif. (phase II)	1,035	1,035			
8. Los Angeles, Calif	750			750	
9. Martinez, Calif	885	160	195		530
10. Memphis, Tenn	143	143			
11. Miami, Fla	702	684		18	
12. Nashville, Tenn	542	128	185	8	221
13. Oteen, N.C	938	709			229
14. Wood, Wis	1,040	594	446		
Subtotal, replacement	19,406	6,606	10,943	798	1,059
C. Modernization	21,325	3,829	14,918		2,578
D. Other improvements	22,736	4,984	17,238		514
E. Savings applied to 1963 appropriation request	1,722		1,722		
Total estimated unobligated balance	67,271	15,929	45,696	798	4,848

Estimated unobligated balance, June 30, 1963

[Thousands of dollars]

	Total	Technical services	Construction	Site	IPE
A. New hospitals:					
1. Washington, D.C	$2,207	$127	$203		$1,877
2. Brecksville, Ohio	8	7	1		
3. Cleveland, Ohio	1,448	133	277		1,038
4. All other financial active projects					
Subtotal, new hospitals	3,663	267	481		2,915
B. Replacement:					
1. Atlanta, Ga	1,394	766	628		
2. Bay Pines, Fla	1,722	1,722			
3. Charleston, S.C	953	560	393		
4. Gainesville, Fla	367	367			
5. Jackson, Miss	4	4			
6. Long Beach, Calif	403	403			
7. Martinez, Calif	805	70	30		705
8. Memphis, Tenn	1,960	1,104	856		
9. Miami, Fla	1,689	889	800		
10. Nashville, Tenn	534	53	60		421
11. Oteen, N.C	586		357		229
12. Temple, Tex	385	385			
13. Wood, Wis	790	469	321		
Subtotal, replacement	11,592	6,792	3,445		1,355
C. Modernization	18,481	3,622	13,334		1,525
D. Other improvements	12,535	2,556	9,722		257
Total estimated unobligated balance	46,272	13,237	26,982		6,052

Estimated unobligated balance, June 30, 1964

[Thousands of dollars]

	Total	Technical services	Construction	Site	IPE
A. New hospitals:					
1. Washington, D.C	$482	$27	$78		$377
2. Cleveland, Ohio	373	33	102		238
Subtotal, new hospitals	355	60	180		615
B. Replacement:					
1. Atlanta, Ga	1,194	666	528		
2. Bay Pines, Fla	1,722	1,722			
3. Charleston, S.C	753	460	293		
4. Gainesville, Fla	805	475	330		
5. Long Beach, Calif. (phase I)	1,321	887	434		
6. Long Island, N.Y	50	50			
7. Los Angeles, Calif	170	170			
8. Martinez, Calif	10	10			
9. Memphis, Tenn	1,760	1,004	756		
10. Miami, Fla	1,489	789	700		
11. Nashville, Tenn	4	4			
12. Oteen, N.C	1,155	482	444		
13. San Juan, P.R	10	10			
14. Temple, Tex	1,035	549	486		
15. Wood, Wis	2,290	344	196		
Subtotal, replacement	13,768	7,622	4,167		1,979
C. Modernization	12,488	2,819	8,896		773
D. Other improvements	4,384	1,621	2,728		35
Total estimated unobligated balance	31,495	12,122	15,971		3,402

Fiscal year 1963 estimated obligations

[In thousands of dollars]

A. Major construction contract awards:	
Atlanta, Ga.: 587-bed hospital	11,800
Battle Creek, Mich.: Altns. Rec. B–6; close and heat corr	294
Bonham, Tex.: Air conditioning	282
Charleston, S.C.: 500-bed hospital	9,550
Cincinnati, Ohio: Air conditioning	1,407
Dallas, Tex.: Altns. bldg. 1, 2, and 3	520
East Orange, N.J.: 200-bed restoration center	1,577
Fort Harrison, Mont.: Altns. bldg. 141	635
Gulfport, Miss.: Rehabilitate elec. dist. sys	325
Houston, Tex.: Addns. and altns. 7th fl. addn	521
Kansas City, Mo.: Convert garage to research	352
Lake City, Fla.: Altns. bldg. 62 and 64	1,170
Memphis, Tenn.: 1,000-bed hospital	16,950
Miami, Fla.: 800-bed hospital	14,900
New Orleans, La.: RO consol.—addn. bldg. 1	3,000
Perry Point, Md.: Sewer conn. and related work	400
Philadelphia, Pa.: Air conditioning	1,552
Pittsburgh, Pa.: Animal research	430
Salt Lake City, Utah: Hosp. consol. and air cond., ph. II	3,000
Shreveport, La.: Air conditioning	1,156
Togus, Maine: Replace boiler plant	435
Washington, D.C.: Experimental construction	466
Wilmington, Del.: Air conditioning	954
Subtotal, major constr. contract awards	71,676
B. Design contract awards:	
Coatesville, Pa.: Chapel, TEC bldg.; repl. blr. pl., etc	150
Danville, Ill.: 240-bed NP building	120
Downey, Ill.: Modernization—Ph. II	180
Durham, N.C.: Research	60
East Orange, N.J.: 200-bed restoration center	84
Fort Meade, S. Dak.: 240-bed, NP buliding	190
Gainesville, Fla.: 480-bed hospital	395

Fiscal year 1963 estimated obligations—Continued

[In thousands of dollars]

B. Design contract awards—Continued	
Indianapolis, Ind.: Hospital consol.; 240-bed addn	[1] 45
Long Beach, Calif.: 1,040-bed hosp., ph. II	630
Los Angeles, Calif.: Research addn	70
Louisville, Ky.: Hospital consol.; 240-bed addn	[1] 40
Miami, Fla.: 800-bed hospital	540
Minneapolis, Minn.: Research addn	70
Oteen, N.C.: 500-bed hospital	365
Perry Point, Md.: Modernization, ph. III	250
San Francisco, Calif.: Altns. B–7, 8, 12; parking and res. addn	60
Syracuse, N.Y.: RO hosp. clinic consol	87
Temple, Tex.: 480-bed hospital	365
Tuskegee, Ala.: Altns. B–38 for chapel; PMR bldg	45
Air conditioning: Group II	2,000
Subtotal, design contract awards	5,746
C. Other obligations:	
Site acquisition (Los Angeles, Calif.)	750
Construction contingencies, station level contract, P. & H., etc	8,542
Initial portable equipment	3,749
Misc. tech. sves. (A/E reimb., contingencies and travel)	460
Salaries (incl. hired labor)	3,425
Corps of Engineers	3,652
Subtotal, other obligations	20,578
Total estimated obligations, fiscal year 1963	98,000

[1] Consultant fees.

Fiscal year 1964 estimated obligations

[In thousands of dollars]

A. Major construction contract awards:	
Beckley, W. Va.: Air conditioning	660
Clarksburg, W. Va.: Air conditioning	630
Coatesville, Pa.: Chapel, TEC bldg.; repl. blr. pl., etc	3,025
Danville, Ill.: 240-bed NP bldg	2,260
Des Moines, Iowa: Chapel; altns. rec. bldg., elev. etc	345
Downey, Ill.: Mod. exist bldg., ph. II	3,175
Durham, N.C.: Research facilities	1,200
Fort Meade, S. Dak.: 240-bed NP bldg	2,160
Gainesville, Fla.: 480-bed hospital	8,300
Lincoln, Nebr.: Mod. various bldg	2,700
Long Beach, Calif.: 1,040-bed hospital	15,100
Minneapolis, Minn.: Research addn	1,300
Oklahoma City, Okla.: Research addn	475
Oteen, N.C.: 500-bed hospital	8,200
Palo Alto, Calif.: Mod. for spec. sve., new TEC bldg	1,275
Palo Alto, Calif.: New dining hall and kitchen bldg	1,000
Perry Point, Md.: Modernization program, ph. III	4,735
Salem, Va.: New canteen bldg	270
San Fernando, Calif.: Conv. nurses qtrs. to research	330
San Francisco, Calif.: Altns. B–7, 8, 12; parking, res. addn	1,180
Seattle, Wash.: Addn. research space	365
Syracuse, N.Y.: RO hospital clinic consol	1,735
Temple, Tex.: 480-bed hospital	9,000
Topeka, Kans.: New chapel	143
Tuskegee, Ala.: Convert space to research	200
Tuskegee, Ala.: Altns. B–38 for chapel; PMR bldg	850
Subtotal, major construction contract awards	70,613

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Fiscal year 1964 estimated obligations—Continued

[In thousands of dollars]

B. Design contract awards:	
Battle Creek, Mich.: Mod. B–13 for GMS; outside util	75
Birmingham, Ala.: Research addition	42
Boston, Mass.: Research addition	55
Danville, Ill.: 2 240-bed NP bldg	240
Hines, Ill.: Modernization and replacement, ph. I	850
Indianapolis, Ind.: 240-bed addn. and cl. consol	325
Long Island, N.Y.: 1,000-bed hospital	950
Los Angeles, Calif.: Research addition	70
Louisville, Ky.: 180-bed addn. and cl. consol	295
Northport, N.Y.: Modernization, ph. I	225
Palo Alto, Calif.: New dining hall and kitchen	55
Palo Alto, Calif.: Mod. bldg., B–111, 113, 208, and 307 (ph. IV)	20
Portland, Oreg.: 505-bed addn. clinic consol	575
San Juan, P.R.: 720-bed hospital	690
Seattle, Wash.: 250-bed addn., clinic consol, res. addn	285
White River Junction, Vt.: Modernization, ph. III	160
Subtotal, design contract awards	4,912
C. Other obligations:	
Site acquisition (Long Island, N.Y.)	600
Construction contingencies, station level contract, P. & H., etc	9,326
Initial portable equipment	5,398
Misc. Tech. Svcs. (A/E Reimb., Contingencies and Travel)	620
Salaries (incl. hired labor)	3,587
Corps of Engineers	220
Department of Navy (VA's pro rata share for replacement of boiler plant at Naval Training Center, Great Lakes, Ill	500
Subtotal, other obligations	20,251
Total estimated obligations, fiscal year 1964	95,776

CONSTRUCTION FINANCING

Mr. SCHWEICKART. With regard to the unobligated amount for each construction contract there has to be a reserve to take care of contingencies during construction, whether they be for foundation conditions or other conditions that occur and which require additional expenditures beyond the contract price.

Mr. THOMAS. When you are given the full sum of what you are supposed to spend on the projects, you have all you are entitled to.

Mr. GLEASON. If I might add something here. We sometimes run into unforeseen things that change the costs.

Mr. THOMAS. Did you let cost-plus contracts or do you have turnkey projects, Mr. Administrator?

Mr. ASHBRIDGE. No, sir, sometimes a lump-sum contract and then something happens on the footings——

Mr. THOMAS. What do you mean a lump-sum contract?

Mr. ASHBRIDGE. Call it a turnkey contract, if you like.

Mr. THOMAS. Based upon certain plans and specifications?

Mr. ASHBRIDGE. Yes, sir.

Mr. THOMAS. That is too bad for him if he missed his estimates.

Mr. GLEASON. Not quite, Mr. Chairman.

Mr. THOMAS. It is a pinpointed contract.

Mr. SCHWEICKART. Changed conditions, Mr. Thomas, are the basis for changes in the contract price and in our active contracts——

Mr. THOMAS. You mean to say that you let a contract for a building, you know you have to have certain foundations and you do not have the contractor bore in order that he knows what he is bidding on?

Mr. GLEASON. They do that

Mr. ASHBRIDGE. Borings are made but the soil tests indicate that the bearing capacity of the soil is not as good as the architect believed it would be from their interpretations of the borings.

Mr. THOMAS. We made a mistake. We have to pay for it.

Mr. ASHBRIDGE. We do.

Mr. SCHWEICKART. We carry a contingency item that will range around 3 percent on major projects. On alterations contingencies will be higher because of what you encounter when you begin to break into the walls, so part of this $31 million we are talking about is the reserve that has to be available to keep these contracts moving. Otherwise, you get into delays in construction and are faced with claims by the contractor.

CONSTRUCTION CONTRACTS

Mr. THOMAS. It looks to me you could protect yourself on 99 percent of your contingencies by good hard and fast contracting.

Mr. SCHWEICKART. Another factor is that these conditions such as the Administrator mentioned are not always resolved immediately with respect to the amount of money involved so sometimes you have an unsatisfied account on a major construction contract.

Mr. THOMAS. If you write the wrong contract you will expose yourself.

Mr. SCHWEICKART. It is a standard form contract.

Mr. ASHBRIDGE. The GSA issues contract forms 23 and 23–A which we use, sir.

Mr. THOMAS. When you get a work order change that changes it, too.

Mr. ASHBRIDGE. Yes, sir.

Mr. THOMAS. What usually produces a work order change?

Mr. ASHBRIDGE. Changed conditions.

Mr. THOMAS. Not a change in plans and specifications?

Mr. ASHBRIDGE. Sometimes we do that.

Mr. THOMAS. That is chargeable then to the administration.

Mr. GLEASON. That is right.

Mr. THOMAS. Your plans and specifications enter into it. You have to pay for it.

DEDUCTION OF UNOBLIGATED BALANCE

Let us summarize this now: You do not think you have too much money. At the end of this fiscal year you are going to obligate how much of your present $136 million?

Mr. GLEASON. 1963, sir?

Mr. THOMAS. Yes, sir. You have 4½ months to go.

Mr. GLEASON. We will have $46 million left unobligated at the end of fiscal year 1963 and at the end of fiscal year 1964 that will be reduced to $31 million.

Mr. THOMAS. With the work you have laid out, we think your figures are a little high. Why carry $141 million?

Mr. GLEASON. We are trying to catch up with this construction. For example, in fiscal year 1963, although we only got $77 million last year from the committee and the Congress, we are obligating $98 million in this present fiscal year.

Mr. THOMAS. At the end of fiscal year 1963 you will have $46 million unobligated. How many approved projects do you have to obligate that $46 million?

Mr. ASHBRIDGE. That is shown in the material which I have given you here, sir, to be inserted.

Mr. THOMAS. Is that what you requested?

Mr. JONAS. Yes.

Mr. THOMAS. What do they total? How many are there?

Mr. ASHBRIDGE. Unobligated at the end of 1963 we have funds for 17 major projects. We have money for 17 new and replacement hospitals that is unobligated. Some of these are complete, some under construction and some in early stages of development.

Mr. THOMAS. Is that all or over or under $300,000?

Mr. ASHBRIDGE. These are all over $300,000. Some of this is on the Washington Hospital, Brecksville, and so forth. Some of this is on projects already started and for which we have money carried over for contingencies. Some is for jobs that are physically complete but not financially closed out.

Mr. THOMAS. Could you get by with $50 million to carry through your 1963 programs?

Mr. GLEASON. No, sir.

Mr. THOMAS. What is the least you can use?

Mr. GLEASON. We have an entry here of $75 million.

Mr. THOMAS. You will reduce that figure by at least $15 million.

PROCESSING TIME FOR CONSTRUCTION PROJECTS

Mr. GLEASON. Yes, sir, Mr. Chairman, but I would like to try to impress upon you how long it takes to get a hospital from the time it passes through Mr. Ashbridge's shop until it actually finishes. It is approximately 5 years. We have to have some basis upon which we can plan.

Mr. THOMAS. What does Mr. Ashbridge's program 9000 do? His 9000 program is going to follow the construction crew. What does this 1700 program do that takes 5 years? It is not going to take a contract for five years. If it did it would be the equivalent of the office building over here.

Mr. GLEASON. The Bureau of the Budget goes over it. It takes anywhere from 6 months to a year for their people to approve it.

Mr. THOMAS. That is the 1700 program crowd?

Mr. ASHBRIDGE. It is before that.

Mr. THOMAS. Your job in 1700 is to prepare it for the Bureau of the Budget?

Mr. ASHBRIDGE. Only a part of it. The lion's share of that is done by the Department of Medicine and Surgery with their Medical Facilities and Requirements people.

Mr. THOMAS. How long does it take you to carry on after D.M. & S.?

Mr. ASHBRIDGE. Once we get it we can prepare the preliminary plans in 6 to 8 months. It normally takes about a year for the

architect-engineer to do his working drawings and specifications and from there on about 2½ years.

Mr. THOMAS. That is 18 months.

Mr. ASHBRIDGE. And about 2½ years for construction.

Mr. SCHWEICKART. That is for a new hospital.

Mr. THOMAS. That is 4 years, not 5 years.

Mr. GLEASON. One thing that was forgotten, this is after the Bureau of the Budget gives us the green light on it, it might take us almost 6 months from the approval of the Bureau.

Mr. THOMAS. You do not need any money. All you need is 1700 money for 18 months.

Mr. GLEASON. I am afraid I cannot agree.

Mr. THOMAS. 1700 money is office work, plans, getting the project ready?

Mr. SCHWEICKART. Not the working drawings.

Mr. THOMAS. The Department of Medicine and Surgery is taking its costs out of M. & S.

Mr. SCHWEICKART. Mr. Thomas, the working drawings are paid for out of the 9000 account, working drawings and specifications.

Mr. THOMAS. There is no argument about that.

Mr. SCHWEICKART. One other point——

Mr. THOMAS. What has that to do with it?

Mr. SCHWEICKART. You were saying that the 1700 money is all we need for a year and a half. The year and a half Mr. Ashbridge was referring to was for working plans and specifications.

Mr. THOMAS. They do not draw the plans?

Mr. SCHWEICKART. Yes. We draw the plans or have an architect-engineer do them for us.

Mr. THOMAS. You give 6 percent to an architect. You do not draw the plans.

Mr. ASHBRIDGE. We prepare the preliminary plans with the 1700 money. The architect-engineer prepares the plans and specifications on which the job is bid and built with the 9000 money.

Mr. THOMAS. We all agree. What is wrong with what I said?

Mr. ASHBRIDGE. Nothing, sir.

Mr. THOMAS. Your 1700 money is appropriated in salaries and expenses. It is not under construction money. You do not need any construction money for 18 months.

Mr. EVINS. You would like to have money in reserve in the bank, but if you ran out how long would it take you to come up with a deficiency?

Mr. GLEASON. This is a difficult thing to answer. If we ran out in August we might be in trouble until the following March or April until we could get the money.

Mr. SCHWEICKART. Mr. Thomas, one thing I think we are overlooking is that we have a staff of people who are on the C. of H. & D.F. payroll who prepare working drawings and specifications or review the work of the architect-engineer contractor.

Mr. THOMAS. Where are they paid from?

Mr. SCHWEICKART. The 9000 account, C. of H. & D.F. account.

Mr. THOMAS. How many of those do you have?

Mr. SCHWEICKART. 260 approximately. That is the bigger part of our organization. All of our resident engineers out on the sites are on the 9000 account. One thing that is important——

Mr. THOMAS. That is the first construction money you have any need for, then.

Mr. SCHWEICKART. For the planning, but we have to have money in the bank before we can ask a contractor to prepare bids.

Mr. THOMAS. Do you have to get Budget Bureau approval before you draw those plans?

Mr. SCHWEICKART. That is correct.

Mr. THOMAS. You do not need that money until you get Budget Bureau approval and the time spent by Dr. Middleton's shop and the time spent by your shop, up until that time, is all appropriated funds from different accounts. It has nothing to do with construction. It is still 18 months any way you look at it.

Mr. GLEASON. We are liable to get back to problems that the VA has had in the past whereas right now the Bureau of the Budget has given us permission to include in our budget for construction and modernization money up as high as $85 million, so that over a 15-year period we will be able to modernize and construct new hospitals or replace them. We have to have the authority from the Bureau of the Budget and also from you in order to do this over a period of 15 years. Otherwise, we will get back 1 year where we are asking you for $17 million, the next year we might be asking for $130 million.

Mr. THOMAS. What is wrong with that?

Mr. GLEASON. This does not give us a very sound basis to plan because we do not always know, Mr. Chairman, whether you gentlemen will be the same members of the committee, you know.

Mr. THOMAS. Now you are getting honest. You are afraid the Congress will change its mind from year to year.

Gentlemen, this has been a pleasure for all of us. We have enjoyed working with you.

Mr. JONAS. If I may ask one question before you close up.

Mr. THOMAS. Surely.

REPLACEMENT HOSPITAL IN PUERTO RICO

Mr. JONAS. Is the Puerto Rican hospital the only oversea construction in the program?

Mr. GLEASON. Yes, sir.

Mr. JONAS. What is the veteran population in Puerto Rico?

Mr. GLEASON. I do not know.

Does anyone here have that? We have about 800 veterans in those various islands.

Dr. MIDDLETON. There are 810 contract hospital beds.

Mr. JONAS. Are they occupied?

Mr. GLEASON. Yes, sir; they are occupied. Otherwise, we would not be paying them.

Mr. THOMAS. Why don't you give Mr. Jonas that figure?

Mr. JONAS. You have 90 percent capacity in your own hospital.

Mr. DRIVER. 114,000.

Mr. JONAS. Veterans?

Mr. DRIVER. Yes, sir.

Mr. JONAS. The table shows your occupancy rate in your own hospital is only 90 percent.

Mr. GLEASON. We have a big contract hospital load in addition to our own Puerto Rican hospital. One reason why we decided to put the Puerto Rican hospital ahead of schedule planning, and that was because the Air Force, the Navy, would like to have some of these beds available so that they themselves won't have to build another hospital. They would like to be able to use our hospital in Puerto Rico such as we use the Army Tripler Hospital in Hawaii. We do not have a hospital of our own in Hawaii and we have so many beds allocated by Tripler for use of veterans.

Mr. JONAS. If it weren't for the Army and Navy, you would not need this big hospital in Puerto Rico?

Mr. GLEASON. This is probably true.

Mr. WYMAN. Why isn't the hospital shown on the projections for the next 2 years at a 100 percent instead of 92 percent of occupancy, the 200 bed hospital that you have there now?

Mr. GLEASON. It is pretty hard, sir, to have a hospital 100 percent full. As I mentioned earlier in our proceedings there are always beds that are going to be not used, either because of modernization, painting, redecorating, putting new tiles on floors, et cetera, so that at any one given time 100 percent occupancy is almost impossible; 90 to 92 percent occupancy is far higher than any civilian hospital in the United States.

Mr. JONAS. That is 20 beds vacant. That strikes me as being a pretty high vacancy rate if you are going to spend $30,000 a bed.

Mr. THOMAS. He is not going to spend that.

Gentlemen, we thank you very much. We have enjoyed being with you.

MONDAY, FEBRUARY 18, 1963.

GENERAL SERVICES ADMINISTRATION

WITNESSES

BERNARD L. BOUTIN, ADMINISTRATOR
LAWSON B. KNOTT, JR., DEPUTY ADMINISTRATOR
ROBERT T. GRIFFIN, ASSISTANT ADMINISTRATOR
WILLIAM P. TURPIN, ASSISTANT ADMINISTRATOR FOR FINANCE AND ADMINISTRATION
JOE E. MOODY, GENERAL COUNSEL

PUBLIC BUILDINGS SERVICE

ROBERT T. DALY, COMMISSIONER
WILLIAM A. SCHMIDT, DEPUTY COMMISSIONER
CHARLES G. PALMER, DEPUTY ASSISTANT COMMISSIONER, DESIGN AND CONSTRUCTION

EXPENSES, U.S. COURT FACILITIES

JOHN C. AIRHART, ASSISTANT DIRECTOR, ADMINISTRATIVE OFFICE, U.S. COURTS
CARROLL A. HEFNER, ADMINISTRATIVE OFFICER, ADMINISTRATIVE OFFICE, U.S. COURTS

FEDERAL SUPPLY SERVICE

C. D. BEAN, COMMISSIONER
JOHN M. McGEE, DEPUTY COMMISSIONER
LEWIS E. SPANGLER, ACTING ASSISTANT COMMISSIONER, OFFICE OF SUPPLY DISTRIBUTION
GEORGE W. RITTER, ASSISTANT COMMISSIONER, OFFICE OF STANDARDS AND QUALITY CONTROL
CHARLES W. GASQUE, JR., DIRECTOR, OFFICE OF PROCUREMENT AND ECONOMIC POLICY

UTILIZATION AND DISPOSAL SERVICE

PAUL A. BARRON, COMMISSIONER
WALTER C. MORELAND, ASSISTANT COMMISSIONER FOR REAL PROPERTY
CURTIS A. ROOS, ASSISTANT COMMISSIONER FOR PERSONAL PROPERTY

NATIONAL ARCHIVES AND RECORDS SERVICE

DR. WAYNE C. GROVER, ARCHIVIST OF THE UNITED STATES
DR. ROBERT H. BAHMER, DEPUTY ARCHIVIST OF THE UNITED STATES
WALTER ROBERTSON, JR., ADMINISTRATIVE OFFICER

TRANSPORTATION AND COMMUNICATIONS SERVICE

ROBERT B. CONRAD, COMMISSIONER
MALCOLM D. MILLER, DEPUTY COMMISSIONER
JOHN W. FLATLEY, ASSISTANT COMMISSIONER FOR TRANSPORTATION
ANDREW HORNER, ASSISTANT COMMISSIONER FOR COMMUNICATIONS

DEFENSE MATERIALS SERVICE

MAURICE J. CONNELL, COMMISSIONER
JOHN G. HARLAN, JR., DEPUTY COMMISSIONER
GEORGE K. CASTO, ACTING ASSISTANT COMMISSIONER, OFFICE OF MATERIALS MANAGEMENT
LOUIS BROOKS, ASSISTANT TO DIRECTOR OF FINANCIAL MANAGEMENT, OFFICE OF FINANCIAL MANAGEMENT
JAMES P. DURKIN, ASSISTANT GENERAL COUNSEL, OFFICE OF EMERGENCY PLANNING
WILLIAM N. LAWRENCE, CHIEF, RESOURCES AND ANALYSIS DIVISION, OFFICE OF EMERGENCY PLANNING

Mr. THOMAS. Gentlemen, will the subcommittee please come to order.

We have with us this morning the General Services Administration. It is a pleasure to welcome the Administrator and his distinguished staff. We think you have a great organization, Mr. Administrator. I do not have to tell the people in attendance that the committee feels as close to this agency as any agency we have the privilege of working with.

We welcome you, Mr. Administrator.

Mr. Turpin, we have looked over your budget. It is a work of art. How you came up with some of these figures is amazing. You must have spent days and weeks. We want to commend you and, as a matter of fact, we will give you an A-plus.

How much unobligated back-door spending do you have in your fund now? I do not think Brother Turpin was good enough to tell us that in his justifications. Be prepared to give us that figure.

Mr. TURPIN. Yes, sir.

GENERAL STATEMENT

Mr. THOMAS. Do you have a statement for us, Mr. Administrator?

Mr. BOUTIN. Yes, I do, Mr. Chairman.

Mr. THOMAS. We are certainly glad to have you with us, Mr. Boutin. We have high regard for the Administration, for you, and your staff. You may talk as long as you like.

Mr. BOUTIN. Mr. Chairman, if I might, what I would like to do is submit the statement for the record and speak to the statement and tell you a little bit of what we have been trying to do. Is that satisfactory?

Mr. THOMAS. That is the way we like it.

(The prepared statement follows:)

GENERAL STATEMENT OF THE ADMINISTRATOR

Mr. Chairman and members of the committee, it is a pleasure to appear before your committee to discuss the 1964 request for appropriations and the status

of our various programs. During the past year many actions were taken to achieve the objectives envisioned by the Congress when it created GSA, and the groundwork is well established for significant additional progress. I would like to highlight for the committee a few of the more significant items.

PUBLIC BUILDINGS SERVICE PROGRAMS

GSA is currently working with Federal agencies to achieve improvements in space management and utilization within the framework of Executive Order 11035, issued by the President on July 9, 1962. In addition, we have developed, and are implementing, a system utilizing our computers to provided needed data to management on a timely basis with respect to the current assignment and use of space in each of some 10,000 locations in Government owned and leased buildings managed by GSA. By perfecting and utilizing these new management tools, we expect to accomplish significant improvements in our space-management program, including ultimate savings in the magnitude of $3 to $5 million annually from improved space utilization when the program is fully developed.

Since enactment of the Public Buildings Act of 1959, we have developed a program calling for construction of 319 projects with an estimated improvement cost of $1,422.8 million, of which $689.5 million has already been appropriated, $172 million is requested for fiscal year 1964, and the balance of $561.3 million is to be requested after 1964. By the end of fiscal year 1962, 94 projects were completed or under contract and an additional 83 projects will be placed under contract by the end of fiscal year 1964.

I would like to emphasize that the selection of projects for construction is accomplished after very careful evaluation, giving full weight to geographical distribution and urgency of need in accordance with provisions of the Public Buildings Act of 1959.

The completion and occupancy of new Federal buildings made possible under the foregoing construction program enables us to progressively carry out a policy of meeting the requirements for new or badly needed replacement space in Government owned rather than leased space. As an indication of this trend, between fiscal years 1952 and 1964 total space financed by the operating expenses, PBS appropriation, will have increase by 19.6 million square feet (23 percent) while our leased space decreased by 2.7 million square feet (9 percent). The objective of housing Federal activities in Government owned space is being aggressively pursued. However, the present rate of financing new construction makes it necessary to continue leasing space to accommodate some of the more urgent needs of agencies we serve.

Continuous efforts have been made to effect better manpower utilization in building operations. Since 1956, our total space workload has grown from 100.7 million net square feet to 141.6 million net square feet in 1962, or a 41 percent increase. During the same period the related employment in the buildings management fund has increased only 2.5 percent. As a result of improved manpower utilization and increased productivity, we estimate that by the end of fiscal year 1964 there will be 1 building employee for each 7,221 square feet of space, compared with 5,201 square feet in 1956.

Due to the rate of physical obsolescence of our Federal buildings and budgetary limitations, we have been unable to reduce the backlog of repair and improvement work. The $10 million increase requested in the repair and improvement appropriation for 1964 will permit a small start toward reducing the backlog of repair work which totaled an estimated $413 million at the beginning of fiscal year 1963.

FEDERAL SUPPLY SERVICE PROGRAMS

The services provided by our Federal Supply Service have gained wide acceptance throughout the Federal community with the result that alltime highs have been reached in the procurement, sale, and inspection of common-use items of supply. During fiscal year 1964, our depot sales are estimated to reach $364 million, an increase of 31 percent over fiscal year 1963. Similarly, purchases of all types of supplies and equipment are estimated at $1,480 million, an increase of 12 percent.

To assist in the gold-flow problem, we are working closely with the military agencies in their efforts to channel procurement to U.S. sources. We have established a customer sales center at Sembach Air Force Base in Germany to provide quick support on the many items in the GSA supply system produced

in the United States. We also arranged for supporting Army oversea installations with many common-use items and for restricting awards for household and quarters furniture for Far East Air Force bases to domestic sources. These actions will contribute substantially to the U.S. balance of payments.

A new approach to the cataloging of civil agency items has been initiated whereby GSA will restrict its efforts to cataloging only new items being procured for stock and existing items which are being restocked. This approach will preclude the cataloging of items in civil agencies supply systems which become obsolete and are being deleted at the rate of about 30,000 per year. As a part of our continuing joint efforts with the Department of Defense in coordinating supply activities, a study of 86,000 supply items resulted in the elimination of 25,000 from the supply system because they were nonstandard or duplicate items. This item reduction program is producing substantial benefits to the Government.

Our firm policy is to use Government-owned warehouse space wherever it is economically feasible. Of the 8.7 million square feet in use during 1962, 22 percent was leased and it is our intent to convert this to Government-owned space as rapidly as possible.

We installed a new automatic data processing system on July 1, 1962, in order to accommodate the change in supply requisitioning and issue system (MILSTRIP) adopted by DOD. In addition to permitting efficient service to our customers, the ADP system is providing many benefits in inventory management, transportation routing, and bill of lading preparation.

Sales of goods and services through our general supply fund in 1961 totaled $347 million, as compared with $649 million estimated for 1964. This rapid expansion in sales volume cannot be handled without adequate additional working capital to pay vendors timely and finance inventories, operating equipment, and receivables. Our justification for the appropriation of additional capital reflects improvement in our receivable position. Outstanding bills are now considered delinquent if payment is not received within 30 days.

UTILIZATION AND DISPOSAL SERVICE PROGRAMS

One of the primary objectives of GSA is to attain maximum utilization of Federal property within the Government. During the year we streamlined our procedures to improve the screening of excess property to determine its usability and to increase utilization by Federal agencies. Further emphasis is being placed on the utilization of excess inventories held by Government contractors. During fiscal year 1962, utilization transfers of real and personal property totaled $460 million at acquisition cost and this is expected to increase to $575 million in fiscal year 1964.

As a result of an intensive program to dispose of surplus property, sales price of real and personal property totaled $85 million in 1962, and our target for 1964 is $114 million.

In our disposal of real property, we have emphasized the sale of surplus plants to "user-buyers" to enhance employment in labor-surplus areas. In the past calendar year, 26 such disposals were made and, when the plants are converted to commercial production it is expected they will employ some 27,000 people with an annual payroll of about $189 million. This will do much to offset the adverse economic impact resulting from Government closure of the installations. During 1962 the property rehabilitation program was transferred from the Federal Supply Service to the Utilization and Disposal Service to obtain better coordination of our property utilization efforts. We are placing considerable emphasis on the use of rehabilitated property so as to avoid new procurement of similar items.

TRANSPORTATION AND COMMUNICATIONS SERVICE PROGRAMS

Establishment of the civil agency telecommunications system is making rapid progress. The system is designed to connect over 8,000 Government offices in more than 1,700 cities and towns throughout the United States and its possessions. Direct dialing through strategically located switching centers and increased capability to handle the rapidly rising communications volumes are being made possible through this system and are expected to produce substantial savings to the Government.

By October 31, 1962, switchboard consolidations were made in 31 metropolitan areas. This eliminated 218 positions and resulted in annual recurring savings

of $340,000. We are studying similar consolidations at an additional 300 major cities.

On February 15, 1963, the first phase of the nationwide circuit switching system was accomplished with the interconnection of 42 major metropolitan areas. This will be extended to an additional 308 cities and towns by the end of fiscal year 1964. Centralized procurement of circuits for civil agencies is well underway and, when fully accomplished, is expected to produce approximately $7 million in annual savings of the estimated $30 million now spent for circuits. Negotiations are now underway with the Department of Defense for a joint effort in this area to obtain further economies.

The Federal Telecommunications System will eventually be the most efficient single civilian agency communications network in the country with message rates lower than any other source available to Federal agencies.

Assistance to other agencies in determining proper rates, routing and classification for freight shipments resulted in transportation savings of $16.9 million in 1962.

During 1962, the motor pool activity was transferred to the Transportation and Communications Service from the Federal Supply Service to achieve better coordination of transportation activities. At the beginning of this fiscal year, we had 66 motor pools in operation. By the end of fiscal year 1964, we will have 75 pools operating. During fiscal year 1962, we had 24,359 vehicles in our motor pool which traveled 249 million miles at an average cost of $.075 per mile. Savings to the Government continue to accrue from the consolidation of agency vehicles into GSA motor pools and further possibilities for improvement are being investigated.

NATIONAL ARCHIVES AND RECORDS SERVICE PROGRAMS

Workload of the regional records centers is continuing to increase. Records administered by our 16 centers reached an all-time high of 6.6 million cubic feet on June 30, 1962. During the year over 5 million inquiries were received at the centers from Federal agencies, veterans, scholars, and the general public. This activity which releases significant amounts of space and equipment for reuse by Government agencies has shown substantial increases in work efficiency over the past decade.

Since we took over the civilian personnel records centers in 1951, we have reduced employment from 305 to 216—29 percent. By the end of 1963, employment at the military personnel records center will be reduced to 600 as compared with 659 in 1961.

By the end of this fiscal year, 12 of our 16 records centers will be in Government-owned space adequate for their long-run operation. The remaining four (Washington, San Francisco, Boston, and Chicago) will eventually require construction of new space. This budget contains a request for funds for construction of the center in Washington which is urgently needed.

NARS will initiate a formal audit of agency records management activities in 1964. At the same time the program of informal audits and assistance to agencies will be continued. Major assistance in paperwork problems will be given to some 90 Federal agencies during the current fiscal year.

During calendar year 1962, we dedicated the Hoover and Eisenhower Libraries, bringing the total to four Presidential libraries now in operation.

DEFENSE MATERIALS SERVICE PROGRAMS

In our defense materials service program, a concerted effort has been made to dispose of excess strategic materials. In calendar year 1962 congressional approval was obtained for 15 new disposal plans for commodities costing $180 million, and 12 additional plans for disposal of materials costing $145 million were developed and are in process of clearance with interested agencies or pending approval by the Congress. Each disposal plan is published in advance of sales action, and all sales are made with due regard to possible impact on the current market.

We have been successful in developing programs for the use of excess materials by other Government agencies to meet their requirements, such as the Bureau of the Mint, Department of Defense, and the Agency for International Development (AID).

We have also been working with the Bureau of the Budget and the Office of Emergency Planning in developing new legislation which will improve stockpile management and enhance disposal possibilities.

During fiscal year 1962 sales commitments covered materials acquired at a cost of $116 million with an estimated return of $87.5 million. Our program for 1964 contemplates sales of materials with an estimated return of $158 million.

The lead and zinc stabilization program is well underway. By December 31, 1962, 103 applications had been received from small domestic producers and payments of $654,000 had been made.

During fiscal year 1962, we were successful in renegotiating contracts which resulted in reducing the Government's obligations by $14.1 million. We are expecting deliveries under only two remaining DPA contracts with an estimated expenditure of $31.4 million.

We also have had a continuing program to maintain our stockpile inventories at the least cost consistent with security considerations. In line with this principle, we store our materials in Government-owned space to the maximum extent possible. During the past 2 calendar years we have gotten out of 6 commercial warehouses and have transferred responsibility for 35 commercial cotton warehouses to the Department of Agriculture.

AGENCYWIDE COMMENTS

Staff specialization has enabled us to render valuable assistance to other agencies through interagency conferences, formal training, and surveys of agency operations. For example, greater productivity, shorter processing time, and reduction or elimination of backlogs resulted from 42 GSA surveys of records management practices. Five interagency motor equipment management conferences (with industry participation) were held to explore ways and means of reducing operating costs and improving safety. Surveys of other agencies' supply management practices resulted in recommendations which will improve their operations.

It is our conviction that properly trained employees will contribute substantially to improved manpower utilization, increased productivity, and lower unit costs. Accordingly, we recently established the GSA institute which will make available to personnel of other agencies, training in those fields for which GSA has Government-wide responsibility, such as procurement, contracting, supply operations, records management, space management, buildings operations, and traffic management. We have had an excellent response from personnel who have taken the courses offered thus far through the institute. Our budget provides for centralized management and operation of the institute by a staff of four people. All other costs are recovered from the agencies whose employees are trained at the institute.

A significant step was taken to improve our centralized organization which provides administrative, financial, legal, and data processing support to all operating programs. We created the Office of Finance and Administration to replace the former Office of Comptroller and Office of Administration. Under this new organization, increased emphasis is being placed on short- and long-range planning, manpower utilization, and funding requirements.

Our Manpower Utilization Division has embarked on a program to review, improve, or establish standards for performance, employee production and unit costs of operations. The GSA planning cycle calls for 5-year advance planning with a semiannual review and the reporting of progress against approved program levels, standards of performance, and unit cost targets. I am confident that these steps will make a significant contribution to better service and more effective management of our resources.

THE 1964 APPROPRIATION REQUESTS

Our 1964 budget calls for new obligational authority of $660.3 million, a net increase of $38.2 million over comparable amounts for fiscal year 1963. The committee realizes, of course, that GSA's workload is not self-generated. Rather, its services bear a direct relationship to the increasing demands placed upon it by other agencies of Government. The funds requested represent the minimum requirements to handle our expanding workload and to continue to provide an acceptable level of service to customer agencies.

We will be happy to answer any questions you may have at this point or proceed to the detailed discussion of the estimates contained in our justifications.

REORGANIZATION

Mr. BOUTIN. I would like to speak informally about what we are trying to do. When the chairman said we have been working down at GSA, I can say amen to that because everyone has just been literally working their heart out and I think we have made some real gains, Mr. Chairman and members of the committee.

One of the real problems we have—I don't think this is peculiar to GSA; it is the same in business; it is the same in other agencies and departments—is trying to provide an absolute equation through our own organization of bringing together personnel requirements and funding requirements, and to get a good fix on this we have done a number of things. I think the most significant has been to abolish the Comptroller's Office and the Office of Administration and bring them together in one shop under Bill Turpin so that we have financial management, management services, and manpower requirements all in one office.

Mr. THOMAS. Is that the reason you went up $1.8 million this year?

Mr. BOUTIN. No; I think the operation of the agency will show some really economical benefits from this, Mr. Chairman.

We are putting together standards for all of the people employed by GSA where we can properly adopt standards to measure productivity, measure job performance, evaluate the individual as to his relationship to our goals and also to give us a real fix on how many people we need.

We have brought together the whole agency and regard it as a single manpower pool.

Now, besides standards, we have improved our training substantially. We have also adopted a plan for a new GSA institute not only for the training of our own people but on a reimbursable basis providing training for people of other agencies in things like records management, transportation management, and the whole gamut for which GSA has responsibility and the know-how. We are developing this to be available to other agencies so that they will have the benefit in their areas of responsibility as well as the benefit to GSA itself.

In addition to the foregoing we have made some significant changes in some of our personnel.

I think that Joe Moody in his appointment as General Counsel is going to be a great help to the agency. Joe has been in Operations. As well as being a fine lawyer, he understands things from an operating point of view. He has seen it from both sides of the table and is very helpful to our Commissioners and to me as Administrator in trying to make the law work for us rather than act as a barrier against us. I think this has been a significant change.

Paul Barron, as Joe's replacement, is Commissioner of UDS. He brings a lot of experience with him, both with GSA and with the National Science Foundation. I am convinced he is going to do a really good job.

Bob Daly is our new Commissioner of PBS. He has been in the regions. I think this is very important. Colonel Wallace came from

the same background. He knows the regional problems, he knows the people in the regions and knows the everyday responsibilities.

Mr. THOMAS. From what region did he come?

Mr. BOUTIN. Region 3, which includes the District of Columbia, Virginia, West Virginia, and Maryland.

ASSIGNMENT AND UTILIZATION OF SPACE

Another thing that we have been doing that I hope will please this committee as it pleases us is the fact that we have taken a hard line relative to assignment and utilization of space. This is not a popular thing with the agencies we serve but we are trying to make it serve as an important tool toward further efficiency in government.

Mr. THOMAS. What is the net figure for the space you took over from DOD this year? You set out 113 million square feet in 1963 and 119 million in 1964. Are we to assume you have a net 5 million square feet or 6.4 million square feet?

Mr. BOUTIN. This would be overall, Mr. Chairman.

Mr. DALY. You wanted the overall figure, sir?

Mr. BOUTIN. The overall figure of increased space we have taken over this year.

Mr. DALY. 5,886,000 square feet under O.E., PBS.

Mr. BOUTIN. This is additional space, Mr. Chairman.

Mr. THOMAS. Ninety percent of it from DOD?

Mr. BOUTIN. There were two properties, Mitchel Field, N.Y., and the Naval Weapons Plant in the District of Columbia that we took over from DOD and we have already converted a lot of this space at the Naval Weapons Plant for use of other agencies of the Government. We really haven't started at Mitchel Field. We took over some of the old hangar buildings and some of the barracks buildings.

Mr. THOMAS. You set up in your fiscal year 1964 budget about 6 million additional square feet that you are taking over at a cost of $12.6 million. We will go into that in detail later but that seems like a high figure. You might explain that later.

Proceed.

EXECUTIVE ORDER 11035

Mr. BOUTIN. We have now to back us the strength of the Presidential order that was issued last July 9 giving to GSA the responsibility for assignment and reassignment of space and also the evaluation of requirements. Our goal is to cut down the average square feet utilization per person in the Government, so that we can point within a 5-year period to a net saving to the Government in excess of $5 million recurring annual savings.

Mr. THOMAS. I believe you said you would reduce that space per person. What was that exact figure?

Mr. BOUTIN. We are looking toward reducing the overall average square foot utilization of office space from 153 down to 150 immediately, with a goal to go down to 140 square feet per person. But I think we have to define what the space is. This includes all office type space, but excludes garage space, cafeteria space, hearing rooms, courtrooms, and so forth.

Mr. THOMAS. That was my point.

Mr. BOUTIN. That is a high figure.

Mr. THOMAS. I think your justifications show figures a little less than that. My thought was, does that figure actually mean much when you include hearings rooms, courtrooms, garages, cafeterias, and so forth?

Mr. BOUTIN. It really doesn't—you almost have to take each building—we have 10,000 locations we are responsible for, give or take a few. We are taking each of these buildings and prescribing the utilization within that building. This is the only meaningful way you can possibly do it. Otherwise you get all this other type space reflected in overall figures.

Mr. THOMAS. It doesn't make sense to take 100 employees on one floor and crowd them up and then waste three times as much space on the next floor with records, files, cafeterias, and so forth.

Mr. BOUTIN. That is why we are doing it on a building basis but hoping to bring down this average to show the kind of savings that I think is going to be very significant as we go along.

Mr. THOMAS. Your savings, to compare it to a golf game, might well be best accomplished on the first hole. If you are going to show any substantial saving it is going to be on that initial deal, that is the lease contract.

Mr. BOUTIN. On our Government-owned property this is very important. When we first occupy a building we must make sure the utilization is the maximum we can achieve without ruining the operational capability of the agency itself. We are getting good support here in Washington. I think one of the most significant in the last few days has been the order issued by the Administrator of the Veterans' Administration where he spelled out in an order to his people the responsibilities that GSA had, and stated it was urgent that they cooperate with us to the maximum extent to see that it is done.

We have had agreements with other agencies, occupancy agreements and occupancy guides, where we spell out what the utilization is to be within their agency, both in the field and in the District of Columbia.

Mr. THOMAS. The record ought to show at this point for the first time since the agency has been established that the Executive has given to the General Services Administration authority to say "Yes" or "No" in assignment of space. Is that true?

Mr. BOUTIN. That is correct, Mr. Chairman.

Mr. THOMAS. It should be said to the credit of the former administration they started the ball rolling by breaking the ice and issuing an order in that general direction, but about a year ago it was finally consummated, we will say, with an order that really meant something from the Executive.

On the basis of that order you do have authority now to control Government space under your jurisdiction.

Mr. BOUTIN. That is correct.

We actually go one step further than that, Mr. Chairman. We have under this order the same type responsibilities in planning for space and reporting such requirements to the President on utilization as the Civil Service Commission does on personnel and the Bureau of the Budget does on financing. The agencies now come to us and say, "We need so much additional space." We have a chance to evaluate it rather than give it to them without question.

SPACE MANAGEMENT JURISDICTION

Mr. THOMAS. In order that the record may be complete at this point, just what is the jurisdiction and what agencies are covered by the jurisdiction of the General Services Administration in the general service and management of space?

Mr. BOUTIN. All buildings we have direct responsibility for, some 104 million square feet where we operate and manage the space under direct appropriations to GSA. In addition to that around 60 million square feet more where we have assignment and reassignment responsibility.

One of the agencies excepted is DOD on military establishments. We have the responsibility, as I understand it, for DOD off military establishments. Mr. Turpin, I think, AEC is exempt from this responsibility, is it not?

Mr. TURPIN. Yes, sir; it is for research and production facilities.

Mr. BOUTIN. And outside of the District of Columbia NASA is not responsible to GSA, but in the District they are.

Mr. TURPIN. That is correct.

JURISDICTION OVER POSTAL SPACE

Mr. THOMAS. How about the Post Office Department?

Mr. BOUTIN. The Post Office Department does come under this responsibility so far as I know.

Mr. TURPIN. It comes under this responsibility except in those post-office buildings where they occupy more than 50 percent of the building. In those cases it remains under their control.

Mr. BOUTIN. But we can still have the authority to go in, in case of poor utilization, and require proper utilization of those buildings?

Mr. TURPIN. Of the space excess to their needs, where it is turned over to us for assignment, but I do not believe in the space actually occupied by the Post Office Department.

Mr. BOUTIN. Mr. Moody?

Mr. MOODY. That is right, Mr. Boutin.

Mr. THOMAS. For example, there is a big one in Chicago. What part of that building is used by the Post Office Department and what part is general office space? Do you have jurisdiction over that part of the building, the general office space?

Mr. BOUTIN. I think we have jurisdiction over the whole building don't we, Mr. Schmidt?

Mr. SCHMIDT. We don't manage the building but we do have the responsibility for assignment and reassignment of the nonpostal space. As far as the postal space is concerned, the Post Office Department reserves the right to assign and reassign that.

Mr. BOUTIN. They have an exception to our authority then.

Mr. SCHMIDT. Under Reorganization Plan 18 of 1950.

Mr. OSTERTAG. I understood the criteria to be 50 percent.

Mr. BOUTIN. Fifty percent or more of occupancy.

Mr. SCHMIDT. That criteria applies only to the management and operation of a building whether GSA manages and operates or the Post Office Department.

Mr. THOMAS. Even in the space the Post Office Department manages you have no jurisdiction whatsoever over that part of the building?

Mr. SCHMIDT. We interpret the plan to mean postal space in the buildings that were in existence at the time of Reorganization Plan 18, whether operated by GSA or Post Office.

Mr. THOMAS. When did that go into effect?

Mr. SCHMIDT. July 1, 1950.

Mr. THOMAS. Let's put it on a percentage basis. The best figure I could come up with—and it is purely a horseback guess—that of all the post office establishments in the United States, GSA doesn't have jurisdiction over 50 percent of it, if that much?

Mr. BOUTIN. Less than that I would say, Mr. Chairman, because of the many small locations.

Mr. THOMAS. Even in a big city post office building where the Post Office Department will occupy three or four floors, you have no jurisdiction over maintenance or operation of that portion of the building, do you?

Mr. BOUTIN. That is correct.

WORK DONE FOR POST OFFICE DEPARTMENT

Mr. THOMAS. Your justification intimates in one place that you are doing a lot of construction for the Post Office Department. Did the Post Office Department abandon its division for maintenance and construction of properties?

Mr. BOUTIN. They still have a good many people over there but we do work on a reimbursable basis for them. On rehabilitation, remodeling, some extension work, strictly on a reimbursable basis.

Mr. THOMAS. What part of the work do you do for them, even though it is on a reimbursable basis?

My point is you still have a duplicate setup in GSA and the Post Office Department. The question in which I am interested is, What part of their overall volume of work do you do on a reimbursable basis even though they have a construction unit over there?

Mr. SCHMIDT. I think it is around $35 million that we will be doing next year. This is modernization of postal space in post office buildings, including extensions to such buildings for postal purposes. As far as the nonpostal work is concerned, GSA does this with its funds. GSA does all the work for the Post Office Department in all federally owned buildings, all modernization, repair, and alterations.

Mr. THOMAS. You do it all?

Mr. SCHMIDT. That is right, sir. We act as their agents.

Mr. THOMAS. How much of a staff have they in that field of activity? Architectural work, construction, and so forth? Do they give you plans and specifications?

Mr. SCHMIDT. They give us sketch drawings based on their requirements and these we then assign to an architect and engineer to develop the working drawings and specifications.

Mr. BOUTIN. They set forth their original requirements, Mr. Chairman, and then they review the plans, diagrammatics, tentatives and finals, and so forth as they are developed to make sure this is what they want and then we go ahead with the contract. We select the

architect. We take it right through the planning and design stage right through completion of the job itself.

Mr. THOMAS. And you are sure you do it all for them?

Mr. SCHMIDT. The work that they do begins with the preparation of sketch drawings to show the requirements and then in the process of designing they do review the drawings at two or three stages.

Mr. THOMAS. The Post Office Department is building annually many, many buildings—not under lease purchase; that has been eliminated. But now they are building many, many small buildings purely for postal use even in the form of post offices themselves, the general post offices in many of the smaller cities of the country. They are going into the big cities and building what we call classified stations or substations.

Do you do that construction work for them?

Mr. BOUTIN. Most of this, Mr. Chairman, is on straight lease and we don't do anything on that at all. The only time we enter into it is when it is Government owned and its modernization or extension of an existing building or part of a new building.

Mr. THOMAS. What we don't understand is why you do part of their work and they do the remainder. They will go out and build a complete building. They do it lock, stock, and barrel.

Why is it they pass over to you a $50,000 alteration or enlargement job?

Mr. BOUTIN. I think the difference is whether it is leased or owned. If it is Government owned they come to us. Mr. Schmidt has testified that this we do 100 percent. But it is a small part of the total.

Mr. THOMAS. We understand the line of demarcation, where it exists, but why does it exist? If they are capable of building their own building lock, stock, and barrell, why shouldn't they have the capability of doing a much smaller job of modernization or extension of one of their properties?

Mr. BOUTIN. I think the reason is, Mr. Chairman, that they don't have a very large staff, as I understand it, on these lease projects. They go out and enter into a lease arrangement where the design is made by private funds, the actual work is done by private funds, and it is strictly on a long-term lease, or in some instances a shorter term lease basis.

Now, we can only do what they turn over to us and ask us to do, and this we are doing. They have never asked us to enter into this picture of leases that I know of at all. Is that correct?

Mr. SCHMIDT. That is correct.

We might make this point: The General Services Administration has always had the responsibility for the repair and improvement of Government-owned buildings, which includes all the Government-owned post offices. And the work that is done under the postal modernization fund are the improvements to the postal portion of the building but the basic repairs and improvements to the building are done by GSA under its repair and improvement appropriation.

Mr. EVINS. Even though there is no nonpostal services in the building?

Mr. SCHMIDT. That is right.

DECREASE IN LEASED SPACE

Mr. BOUTIN. A couple of other things will be of interest to the committee: We are getting out of leased space just as fast as we can. We are getting out of the leased space we have used heretofore, for Federal supply depots and in storage of strategic critical materials or DPA Act materials or supplemental stockpile materials. Within the next couple of years—providing that we come to the Congress next year and obtain authority to buy the Franconia facilities—we will be practically out of all leased facilities, both in the DMS area and the Federal supply area. This, I think, makes good sense. Where we are in Government-owned space it is proven to be cheaper and more economical in operation and certainly over the long pull, a lot cheaper as far as our costs are concerned.

The DMS area has been reorganized so it is now disposal oriented. We are ready, if new legislation is presented and passed by the Congress and approved by the President, to undertake a substantial disposal program of excess materials that are in long supply. This committee has spoken to this many times—where we will be able to undertake a——

Mr. THOMAS. I don't know about $9.4 million set up in this year's budget for things under construction in the District of Columbia area, and the purchase of the building in Franconia.

Mr. BOUTIN. That would be next year, Mr. Chairman, in 1965. That is when we have our option to purchase, between December 31, 1964, and June 30, 1966. It will cost $5,800,000 to purchase the facility, including land.

Mr. THOMAS. The justifications indicate new construction, but it is purchase of existing facilities?

Mr. BOUTIN. What we are asking for this year is funds to build a new records center, to replace what we have down in Alexandria, down at the old torpedo plant and in other scattered locations—to bring together under one roof a regional records center.

Mr. THOMAS. Is there enough land at Franconia to take care of the records center?

Mr. BOUTIN. No, Mr. Chairman. We are extremely short of space. We want to move out what we have because we need the space to handle our Federal supply operation. As it is, we have had to use part of the Bengies plant near Baltimore and we have had to open up an annex operation in Government-owned space down at Norfolk.

We are really crowded for space. We are moving toward complete use of Government-owned space all the way. I think this will have long-term benefits.

PROPERTY UTILIZATION

We have also made changes in our utilization and disposal activities so we are improving substantially utilization of real and personal property excess to a given agency's requirements. You will notice in the justifications we show a good increase in utilization and every bit of this is savings to the Government. It prevents the purchase of new items by utilizing these excesses generated to the tune of about $1 billion a year in acquisition costs for personal property alone.

We have been able to sell quite a number of the excess and surplus real properties. We have sold to user buyers and this has helped to offset the economic impact of the Government plants closing. There are going to be payrolls generated instead of some junk dealer coming in and taking the property and scrapping it. We have quite a number of user buyers and this is precisely our goal, to have more of them.

We have also been trying to improve our techniques on sale to increase the amount returned to the Treasury. We are anticipating in 1964 fiscal year that we will have $114 million in sales for real and personal property, which is a very substantial increase over what we have ever had since the formation of GSA.

FEDERAL SUPPLY SERVICE SALES

In the FSS area you will notice we point to an increase in store sales of 31 percent. This program is growing rapidly. Its acceptance by the other agencies, including the Department of Defense, is 100 percent better than it has ever been before. We are also taking a significant part in the flow of gold problem by supplying overseas from domestic purchases rather than having purchases made overseas with U.S. dollars. I think from our unit costs you will see we are making every effort possible to keep these just as low as we possibly can.

AUTOMATIC DATA PROCESSING

We have had changes in our ADP operations where finally we have standardized equipment. We had equipment before where there was no compatibility in machine language between one type and another. We have several program applications now on our computers in addition to the FSS program and are making good progress in taking full advantage of the potential offered by computers. In another 2 years we will be able to show some substantial increases in utilization and benefits to the program operations.

PRESIDENTIAL LIBRARIES

Finally, I think it would be well to point out that we this year have opened two additional Presidential libraries, the Hoover Library and the Eisenhower Library, both of which were dedicated last summer. This changes the Archives workload to a certain extent. We can see real benefits coming from the establishment of these libraries and the number of people who visit them each year and the number of scholars who are there doing research.

We know we have a long way to go at GSA before we can finally tell this committee or tell the Congress that we are doing everything that can be done to improve the business arm operation of the Federal Government. However, I think we are making headway. We are at it every single minute of every single day.

Mr. THOMAS. That is a very comprehensive statement and we appreciate it very much.

PAY ACT COSTS

I didn't find in the justifications the complete wrapup figure of what the Pay Act cost for 1963 and 1964. You set out at one place about

$7.4 million. I assumed from that it was for fiscal year 1964. What did the entire Pay Act cost you?

Mr. TURPIN. The entire Pay Act cost for 1963 was $4,554,645 of which $1,523,645 is being financed within funds we have, and there is a pending supplemental of $3,031,000.

Mr. THOMAS. That is for fiscal year 1963?

Mr. TURPIN. Yes, sir.

The total Pay Act cost for all programs in GSA for 1964 is $9,273,700.

Mr. THOMAS. What did the entire Pay Act cost then, about $13.8 million, for fiscal year 1963 and fiscal year 1964?

Mr. TURPIN. For the 2 years; yes, sir.

Mr. THOMAS. And you set out a figure of $7 million. That was for public buildings alone?

Mr. TURPIN. Sir, the $7.4 million is the cost in 1964 for those appropriations that are now before the committee for new obligation authority.

Mr. THOMAS. Is that agencywide or just under public buildings?

Mr. TURPIN. That is agencywide. All of our appropriations.

Mr. THOMAS. You will absorb $1.3 million in fiscal year 1963 out of a possible $4 million?

Mr. TURPIN. $1.5 million, sir.

Mr. THOMAS. Out of a possible $4 million?

Mr. TURPIN. Out of $4.5 million; yes, sir.

Mr. THOMAS. A pretty small cost.

Mr. TURPIN. We put the squeeze on to absorb as much as we can.

Mr. THOMAS. How much are you going to absorb of that $9 million for fiscal year 1964?

Mr. TURPIN. We are in effect absorbing an equivalent amount because the $3 million is all that is in our base for 1963.

Mr. THOMAS. I am talking about 1964 now. You set out a figure of $7.4 million. Now you say the pay act will cost you $9 million for 1964. I am asking how much of that $9 million will you absorb? Will you absorb the difference between $9 and $7.4 million?

Mr. TURPIN. Yes, sir, from total funds available to GSA.

Mr. OSTERTAG. Mr. Turpin, is the application of the pay increase as it applies to the General Services Administration generally approximately $9 million?

Mr. TURPIN. For 1964, yes, sir.

Mr. OSTERTAG. For the fiscal year?

Mr. TURPIN. Yes, sir.

Mr. OSTERTAG. In other words, the amount is not $7 million. The additional obligation is not $7 million but rather $9 million.

Mr. TURPIN. That is correct, sir.

Mr. THOMAS. Your justification is not clear, but I assume the difference between $7.4 million and your $9 million plus is Wage Board? Is your Wage Board included in that $9 million for 1964?

Mr. TURPIN. No, sir. That is just the pay act.

WAGE BOARD COSTS

Mr. THOMAS. What will the Wage Board cost you?

Mr. TURPIN. The Wage Board percentagewise has been running about 5 percent a year.

Mr. THOMAS. You have a supplemental pending for the Wage Board item?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. You have how many supplementals pending, seven or eight?

Mr. BOUTIN. Wage Board is $2.4 million in the supplemental.

Mr. TURPIN. We have pending in the supplemental seven items plus sort of an omnibus item for the pay act increases, which would be eight items in total. The Wage Board item in the supplemental is $2.4 million.

Mr. THOMAS. Gentlemen of the committee, I suggest it might be interesting to turn to these organization charts A and B.

Mr. BOUTIN. Mr. Chairman, I neglected to make one point. May I make it, please?

Mr. THOMAS. Surely.

FEDERAL TELECOMMUNICATIONS SYSTEM

Mr. BOUTIN. On one of the things we have been talking to this committee about for 2 years we can finally point to some real accomplishment. We implemented phase I of the Federal Telecommunications System on the 15th of this month, just 3 days ago, and we are in motion.

Mr. THOMAS. Good. I see you have an item set up for $10 million in the supplemental.

Mr. BOUTIN. For the revolving fund; yes, sir.

Mr. THOMAS. Gentlemen, look over this organization chart. I imagine the members have some general questions.

GROWTH OF GSA

Mr. OSTERTAG. Mr. Administrator, you and your organization, namely the General Services Administration, might be regarded as a big business within the Federal Government of the United States and in that connection your responsibilities are involved in many, many services, which to some extent might be regarded as a barometer of Government functions.

We have seen your agency grow and grow over these years and that is not to your discredit. That is to the credit of the General Services Administration and your efficient operation.

The point I am trying to make is whether or not you can see any reasonable leveling off to this whole picture? After all is said and done, as Government grows your responsibilities grow. It is naturally reflected in your budget. We now have a Federal budget of approximately $100 billion this year which, to some extent, reflects expansion and growth in our National Government. What would you say as to the picture of the respective growth or expansion and added expenditures as reflected in your budget as compared to the national budget?

Mr. BOUTIN. Congressman, that is a difficult question to answer and I think I should preface it by saying that until such time as GSA meets the responsibilities given to it by the 1949 act, we are going to see some substantial additional growth, or the agency should be abolished. I think these are the alternatives but when you look at the number of systems of supply and procurement still in the Government, realistically, either the Administrator or someone else, should have these responsibilities. There should be no duplication in these areas. The handling of surplus real and personal property is a GSA function. GSA delegated its heart and soul. We are trying to bring it back in one house. In defense materials, for instance, we have a fluctuating program. We are substantially through with the acquisition stage. Now we are going into disposal. We are going to be subject there to the dictates of the Congress. If Congress says we are going into a big disposal program, which the President agrees should be done, then you are going to see some growth in that area. We have seen growth in the area, for instance, of stocking shelters where GSA has procured and has stocked in central locations various types of equipment which will be redistributed to the shelters themselves. This speaks to GSA growth but we have not begun to reach the level that I think the Hoover Committee foresaw, that President Truman foresaw and the Congress foresaw in the passage of the 1949 act.

Until such a time as these responsibilities are brought together under one head, we are not meeting our responsibilities, in my judgment, so you have a certain amount of growth from this gradual retaking of delegated authority.

If you were to separate that out, then I would say that our budget should be just about in the same ratio of increase every year as the change in the national level of budget requirement, just about the same. We are speaking of space, of telecommunications, transportation, supply, all of these various areas. We are trying to bring this animal together so that we can manage it and so far we are quite a long way from reaching that, but I think the day is not far away when we are going to do away with this duplication or overlapping which is what we all are trying to get done.

Mr. OSTERTAG. Perhaps if we look at the picture as you have described your relationship to it—and I am not quarreling with it, in fact I am applauding your views and objectives. It is granted that in our overall national expenditures we find many obligations which are fixed, such as the interest on the national debt, assistance programs, many, many expenditures or obligations on the part of the National Government are not matters pertaining to direct services or supply.

GSA SUPPLY RESPONSIBILITIES

Of course, the national defense, which embraces more than half of the total, is in a peculiar category by virtue of the very nature of this obligation and responsibility but what percentage of this overall national function actually should and does come within the jurisdiction of General Services Administration in regard to supply and management and services of that character?

Mr. BOUTIN. The best example I can give you, Congressman, is in the area of supply and procurement. Right now, in spite of the broad language in the act, GSA is doing 3.6 percent of the total of the Federal Government. This, to me, is not an acceptable indication of our progress in the direction that we should long since have been going. We should be doing much, much more than that. In the R. & D. areas, we have no responsibility other than to issue the Federal Procurement Regulations, et cetera, which establish requirements of contracting. But, in supply itself we should be actually in a position where we could tell you that there are two systems. There is a Department of Defense system and a GSA system serving the entire Government and on all the common-use items that GSA is furnishing them for the total Government. That is why I say we are scratching the surface, and are just beginning to get into this area, with the Department of Defense on common-use items—taking them out of their system, putting them in our system. This way we get the benefit of the competitive bidding for the total Government requirement. The other agencies on the civil side that still have their own supply distribution setups are largely duplications of what GSA should be doing.

OTHER GOVERNMENT SUPPLY SYSTEMS

Mr. THOMAS. Who are those agencies, who are those civilian agencies outside of Veterans' Administration that have their own supply system, common use?

Mr. BOUTIN. Post Office Department is a big one, FAA is a big one.

Mr. OSTERTAG. The Defense Department maintains a supply system, I am sure.

Mr. BOUTIN. The military, of course.

Mr. THOMAS. Post Office, FAA, you have mentioned DOD and Veterans. Who else?

Mr. BOUTIN. NASA is certainly a big one. What others, Joe?

Mr. BEAN. He mentioned the larger ones but each of them have a small area in which they do some of their own work, too.

OVERSUPPLY PROBLEMS

Mr. OSTERTAG. We hear from time to time about obsolescence and oversupply and situations where there has been an absolute waste and extravagance and misuse of funds by way of purchases, et cetera.

If it all came under GSA where you have greater and absolute control over the supply line of the Federal Government, would that be substantially overcome?

Mr. BOUTIN. I think it would be very substantially overcome. The one exception, Congressman, would be when we have a certain item that we have experience on, or experience from others where over the years there has been the general ratio of procurement, and all at once that should change for any given reason. There is always the possibility of small oversupply, but you are not going to be talking 5, 10, 15, or 40 percent oversupply as you have seen; you would have a better handle on it, the percentage would be vastly changed.

Mr. BOLAND. Doesn't the waste and extravagance usually come in an article that is not common use? Most of the extravagance occurs

in DOD, and is not connected with a common-use article. This agency would not be interested in this.

Mr. OSTERTAG. That was my point.

FORECASTING REQUIREMENTS

Turning to another aspect of this overall picture, and I am merely trying to develop our general situation in the operation of this big business known as our Federal Government, we have seen a terrific expansion in our services and our operations—new agencies and expansion of existing agencies—so that we now find ourselves so large that we are unable to see ourselves, and here again in each and every agency and program we witness a budgeting of increased personnel, for example. Have you any estimate as to the growth or the requirements and justifications for these expansions? It is directly associated with your business. How do you plan it? How do you figure? How do you deal with it?

Mr. BOUTIN. I think public buildings is a very good example.

Mr. OSTERTAG. Public buildings is a part of it.

Mr. BOUTIN. Yes. For instance, in public buildings we can forecast requirements exactly by knowing how many new buildings are going to come into our inventory in a given year. We know that from contracting dates and completion dates. We get our space, leased space, on the second year of financing. The agencies finance the first year themselves, and this is a matter, by the way, that we are working with the Bureau of the Budget on right now at the request of this committee, but we know by the second year what we have to finance.

Mr. THOMAS. There is something that should be stopped and it should be stopped this year, and there is a good reason for it. They finance their own space requirements for the first year. You take them over the second year and you are stuck. They want you to nullify your Executive order.

Mr. BOUTIN. With the exception that now, and we do not disagree with your position, but now when they come to us for space, the first year even though they have their own financing we actually do the contracting and evaluating the requirements that they have. We won't contract for that space unless they have maximum utilization of the space already assigned to them.

Mr. THOMAS. That is just walking around in a jug. You ought to do it all. It makes your job the second year twice as hard as it would be if you started in right.

Mr. BOUTIN. In Federal Supply is another example. Any agreements that are reached in a preceding year, such as this year when we are working with DOD and some of the civilian agencies, we can forecast what our personnel requirements are going to be with the job standards being established as to productivity per individual and get a pretty good handle on it. We always leave a safety margin there to take care of the peaks and valleys by contracting. For instance, Mr. Bean, I think, this year has something like $875,000 in the budget for contract labor to take care of these peaks where it would be foolish to hire permanent people.

Mr. OSTERTAG. Perhaps I can make my point a little clearer when I ask you, Do you have in your agency the figures of the total overall personnel requirements throughout the Federal Government, particularly in the several agencies exclusive of the military?

Mr. BOUTIN. If we do not have them on hand they are always available to us from the Bureau of the Budget as to the ceilings they establish in the budget documents for the various agencies. We can get a fix on that at any given time.

Mr. OSTERTAG. Do you know what the total increase is over last year, requested in fiscal year 1964 as compared to 1963?

Mr. BOUTIN. I do not know. Do you know?

Mr. TURPIN. No, sir. I do not have that figure.

Mr. OSTERTAG. How do you plan or deal with these requirements if you do not have information or knowledge as to what the requirements will be?

Mr. BOUTIN. We have only this, Congressman: We have the space, the financing for first year space that the Bureau of the Budget has allowed any given agency. This is the best measure for us as to our own requirements.

Mr. THOMAS. Mr. Evins?

INCREASE REQUESTED OVER 1963

Mr. EVINS. Mr. Administrator, you are asking for about a $38 million increase. You say the payroll for the 2 years is $13 million, which is required by law. That makes an increase of $25 million you are asking for next year in your budget over last year. What basically are you needing this $25 million for?

Mr. BOUTIN. There are two big areas, Congressman, that are essential to us. With the budget allowance that we had last year by the Congress, we will be down to about 60-percent effectiveness in cleaning our buildings, which includes preventive maintenance, window washing, cleaning of floors, walls, trying to keep the buildings in decent shape. We have up to this year been at about 80 percent of our standard, doing a reasonably good job. We are trying to get back to at least 70 percent in 1964, which is not as high as we would like. We would like to get back to 80 percent but to try and keep our request within the realm of reasonableness, we are trying to get back to 70 percent. This is the biggest increase in personnel and funding requirements in GSA's request. We also have to a lesser extent additional personnel requirements in Federal supply. We show 31 percent projected increase in our sales. We are just about up to the limit of productivity right now that we can see accomplishing for the next year.

CONTRACT CLEANING

Mr. EVINS. How much is the overall round figure for custodial services for all the Federal buildings that you are maintaining, the contracts that you are letting for cleaning and servicing Federal buildings? How much does it run a year at the present time?

Mr. DALY. We are looking that up now, sir.

Mr. BOUTIN. I might say while they are looking that up, Congressman, that our experience has become progressively worse with each

passing year on contract cleaning, with the exception of two regions, because contractors have been underbidding each other until they are at a point where the performance has been atrocious. We have been changing this by evaluation; if we have a good contract, fine, if we do not, we have gone into force account, where we can get good performance, and cleaner buildings. But some contract cleaning has been bad, not only for GSA, but also the Building Owners & Managers Association tell us that their experience has been equally bad.

Mr. THOMAS. You set out the figures Mr. Evins asked you about. You show a $3,100,000 increase in your 1964 budget over 1963 for the same purpose.

Mr. EVINS. I would like the total current annual cost.

Mr. DALY. For fiscal year 1963, the total cost for operation and protection of all of our Government-owned space is $89 million.

Mr. EVINS. This is not cleaning and protection. That is another item.

Mr. DALY. I was trying to give you the total cost, sir. This would be cleaning, operating the elevators, the guards, et cetera.

Mr. EVINS. That is not what I asked. We are talking about the cleaning item now.

Mr. BOUTIN. All he wants is cleaning. We have that.

Mr. EVINS. Your principal increase in the two items is for cleaning service and for supply and storage. We are getting into a $25 million increase in the budget for next year over the current year.

Mr. THOMAS. I do not think that is quite accurate. The table reflects about a $13 million increase in buildings management in one item alone.

Mr. EVINS. Would you tell us how much your current custodial cleaning service and contract accounts are?

Mr. DALY. I will have to work that figure up for you, sir. I have it on a square foot basis. I will develop it in just a second.

Mr. EVINS. Do you know how much increase you are asking for this item for next year?

Mr. DALY. In the overall it is $13 million. As you pointed out that took care of heating, elevators, et cetera.

Mr. BOUTIN. Including utility costs.

Mr. EVINS. The Post Office Department has a provision in their law where there is a star route carrier and if he is satisfactory, rendering efficient service, they have authority to recontract with the existing operator service carrier. Do you have that authority in your law?

Mr. BOUTIN. No. We go out to competitive bidding when it is going to be done under contract.

Mr. EVINS. You say competitive bidding is getting to the point you have less efficiency?

Mr. BOUTIN. It has gotten to a point where with some of these contracts, employees remain on the job only about 6 weeks and we have the constant security check expense because of turnover. If an employee is with them in excess of 6 weeks he is a veteran.

Mr. OSTERTAG. Do these employees come under the Wage Board?

Mr. BOUTIN. No, sir. They are subject to the minimum wage law. These are private employees.

Mr. EVINS. Do you propose a change in this contract service to a different method of operation?

Mr. BOUTIN. What we are doing is evaluating each single instance where we have had contract service evaluated that versus what it would cost and the performance we would get from force account. With very few exceptions we are going force account and getting much better service.

Mr. EVINS. You will employ your own people and keep them aboard to do the different services?

Mr. BOUTIN. You can train them and get mileage out of them.

Mr. EVINS. You said a while ago you were up to 80 percent of the buildings. Now you are cutting to 70.

Mr. BOUTIN. No. We were at 80 percent in fiscal year 1962; in fiscal year 1963 we are down to about 60. We are trying to get back up. We have some dirty buildings. That is the fact of the matter.

Mr. EVINS. You need how much for this service next year?

Mr. SCHMIDT. About $30 million for cleaning. That is total estimated cleaning cost under operating expenses.

Mr. EVINS. That is your current year cost?

Mr. SCHMIDT. That is our estimate for next year. The current year would be about $3 million less or $27 million.

Mr. EVINS. In other words, you are asking for a $3 million increase in your cleaning costs?

Mr. SCHMIDT. Yes, sir.

Mr. BOUTIN. Also a substanial amount of the increase for 1964 would be for new construction that is going to come into being.

Mr. EVINS. That is only $3 million out of $25 million for these two items. There is a $25 million increase in the budget and only $3 million for the contract service. Where is the other $22 million?

Mr. BOUTIN. You have increases in Federal Supply, but really, as the chairman indicated, this difference in the budget is not a fair evaluation because you have new items in there that were not there before and you have cuts in old items. Construction is way down from last year.

Mr. EVINS. What are your increases proposed in the Federal Supply Service, Mr. Bean's department?

Mr. BOUTIN. How much of an increase do you require for manpower?

Mr. BEAN. I am sorry, I do not have that information with me.

Mr. EVINS. I thought they would be paying you back on time and you would be making a profit, Mr. Bean.

Mr. BEAN. No, pardon me.

Mr. EVINS. You would be needing the increase.

Mr. BOUTIN. The profit all goes back into the Treasury.

EFFORTS TO HALT OUTFLOW OF GOLD

Mr. EVINS. You mentioned lightly on this subject that you are doing a great deal to arrest the outflow of gold from this country. What really are you doing about this and what can you do? You are to be commended. This is a laudable thing if you can do it and are really doing it. What are you doing?

Mr. BOUTIN. We are doing a great deal. We have opened a supply service center at Sembach Air Force Base, Germany, serving the European Command over there. We commented about transceiver service into our New York office.

We can provide their requirements for common use items. Things in our system are also on their stocklists. We can provide them from stateside sources rather than have them bought there. This is very new. We opened this center a little less than 60 days ago. It is in operation. We hope to do the same thing in the Pacific Theater and also in the Caribbean where we can supply from stateside sources. This growth has been really fantastic. We have agreements with the Air Force on all of their quarters furniture for instance, a very big item. These are all purchased through GSA, either from our schedules or through special purchase to meet their requirements. We plan to equip some of the military hospital facilities in Europe, also using stateside sources. We have a recent arrangement with the Army that is effective the 4th of March.

They will be sending orders for our stock and schedule items direct to our port regions. We are talking about a good many millions of dollars in business which we expect to handle from stateside contractors rather than offshore purchases.

Mr. EVINS. We find that the VA is providing more veteran services overseas, that many agencies are not really contracting their spending which would help the gold situation about which the President and the administration have shown concern. If each agency directed its attention to this problem I think the benefit would be substantial.

Mr. BOUTIN. We are also doing a great deal with the State Department. This is a brand new program. We have just started. We are rendering substantial increases in supply support to the embassies and consulates, et cetera, which were largely buying locally. We can give them excellent service. The thing is really working very well, but it has just started.

CONTRACTS ALLOCATED TO SMALL BUSINESS

Mr. EVINS. Mr. Administrator, what percentage of your contracts are now being allocated to the small business segment of our economy? GSA is one of the big Federal contractors.

Mr. BOUTIN. Fifty-six percent.

Mr. EVINS. That has gone up over the years. You are to be commended.

Mr. BOUTIN. Yes; it has. This figure is correct, is it not?

Mr. GRIFFITH. Yes, sir.

Mr. BOUTIN. We have gone up from 42 percent to 56 percent.

Mr. EVINS. I hope you can do something in the area of arresting the outflow of gold from our counrty.

Mr. BOUTIN. I think when we come back next year we can show you a real significant accomplishment there, Congressman.

OVERSEA SUPPLY OPERATIONS

Mr. OSTERTAG. How do you handle your program or your functions in oversea supply? You have a transportation factor involved, do you not?

Mr. BOUTIN. Usually, the vendor's bids are based on delivery to the port from which the goods will be shipped. We ship almost exclusively now—there are exceptions—but almost exclusively through military air transport or military sea transport. Bearing in mind now that of our overall Federal Supply stores business, 70 percent is with the military; overseas would be closer to 98 percent or 90 percent.

Mr. BEAN. Ninety percent.

Mr. BOUTIN. This is the usual method of transportation overseas for our military customers.

Mr. OSTERTAG. Do they absorb the transportation cost?

Mr. BOUTIN. They absorb the total cost. They reimburse us for all expenses for export packing and they pay the costs of transportation to and from the port of shipment.

Mr. OSTERTAG. This has nothing to do with the assistance program in any way, our foreign assistance program?

Mr. BOUTIN. Not in any way.

Mr. OSTERTAG. It is only to agencies including military overseas?

Mr. BOUTIN. And of course military is a big procurement source.

Mr. OSTERTAG. Have you any figures as to how much that amounts to?

Mr. BOUTIN. What can we forecast for fiscal year 1964 oversea business?

Mr. BEAN. About $150 million, stores and nonstores.

Mr. EVINS. Most of this is with the Defense Department?

Mr. BOUTIN. Ninety percent Defense Department.

Mr. EVINS. Is one of the objects of this program not just to give them service but to cut down on the purchasing otherwise in the countries that are flourishing and prospering and where economies have been built up and their growth rate is greater than our own at the present time?

Mr. BOUTIN. Secretary McNamara has issued specific instructions on this, where the goal is to buy domestic United States for their requirements wherever it is possible.

INCREASE IN STRATEGIC AND CRITICAL MATERIALS

Mr. EVINS. One other thing: Just running down your summary here, Mr. Administrator, and we will get into details later, I notice a $10 million increase for strategic and critical materials. I thought you were tapering off on that and cutting down.

Mr. BOUTIN. This is broken down into several areas of importance. One is a funding increase to fulfill the increased workload that we see for sales. As I said, in my opening statement, we have tried to make this service of our agency sales oriented so there is an increase there. There is an increase for rotation because we intend to rotate sisal and abaca by direction of the Office of Emergency Planning. Actually, the net cost for this rotation will be about $1.4 million, because sales of the item being rotated go into the Treasury under requirements of the law.

Mr. THOMAS. We will cover that later.

Mr. BOUTIN. Yes, sir.

Mr. EVINS. Mr. Administrator, I made an observation to our chairman a while ago during your testimony, that you are like the banker

who is out of money. You have control of space but you are short of space for your own department.

Mr. BOUTIN. That is correct.

Mr. EVINS. Couldn't you take care of your own needs with a little priority?

Mr. BOUTIN. We only have so much in the kettle and we try to distribute it around to satisfy as many as we can.

Mr. EVINS. You are taking care of the others first. Not many people do that. That is all. Thank you.

CONTRACT CLEANING

Mr. EVINS. With respect to the contract services in which you are asking for a $3 million increase, how much personnel does it involve in the way of increase? How many new people are you proposing to take on board just to do this custodial and training service?

Mr. DALY. We have a figure on that, sir, which we can give you.

It is about 700 strictly custodial-type cleaners, but that also takes into consideration the extra space that we are getting for new buildings coming on board.

Mr. EVINS. 700 more employees?

Mr. DALY. Yes, sir.

Mr. EVINS. Not altogether, but an increase of 700?

Mr. DALY. Yes, sir.

Mr. EVINS. For custodial and cleaning services?

Mr. DALY. Yes, sir.

Mr. EVINS. I was of the impression, like Mr. Boland and perhaps our chairman, that the contract service would be more economical if you could operate on that basis.

Mr. THOMAS. I do not think there is any doubt that they can. The question is if you get the same results as far as the dollar cost. It is bound to be cheaper. You did not intend to leave the impression it was cheaper to go back to the old method of force account; did you? Your point is that perhaps you would get a cleaner building, but for the overall dollar cost it is considerably higher than contract cleaning.

Mr. BOUTIN. For the degree of cleaning effectiveness, however, Mr. Chairman, we think it is cheaper by force account in many instances. New York City is one of the places where we have been able to prove that.

Mr. THOMAS. Mr. Ostertag.

GSA BUDGETS, 1960–64

Mr. OSTERTAG. I have one general question which has to do with the comparative expenditures or budgets of the GSA over a period of 4 or 5 years. I note you have figured the 1963 fiscal year at $622 million, which includes certain supplemental estimates.

Mr. BOUTIN. That is correct.

Mr. OSTERTAG. The estimated budget for 1964 is about $660 million, which is an increase of approximately $38 million.

How does this compare with the last 4 or 5 years? What has been your general increase?

Mr. BOUTIN. As far as the percentage increase overall?

Mr. OSTERTAG. Either dollarwise or percentagewise.

Mr. BOUTIN. This would not be very far off, would it, Mr. Turpin?

Mr. TURPIN. For the last 2 or 3 years, it has been about the same overall dollar level.

Mr. OSTERTAG. Have you a breakdown of comparative total GSA budgets for the last 4 or 5 years?

Mr. TURPIN. I do not have it available here, Congressman.

Mr. BOUTIN. We can get that and have it available.

Mr. OSTERTAG. Yes; if you will.

Mr. BOUTIN. Of course, part of the fluctuation is in the construction appropriations. We had practically a moratorium in some years on the "Construction and improvement" item. That would make a big difference.

Mr. OSTERTAG. If we could have that picture put together, and if there is any particular variation, may we have the general reasoning for it?

Mr. TURPIN. We shall supply that if the committee desires it.

Mr. OSTERTAG. I am trying to look at the picture on the broad basis of comparative figures over a period of years. I do not care whether it is 4 or 5, any number of years that you can give us some idea as to where this is going and what it looks like by years.

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(The information supplied follows:)

Summary of new obligational authority, 1960–64

Appropriation items (grouped by major purpose)	1960	1961	1962	1963 comparable amount [4]	1964 budget estimates
(a) Basic operations:					
(1) Operating expenses, Public Buildings Service	$154,610,000	$171,609,081	$179,416,355	$193,928,366	$216,439,000
(2) Operating expenses, Federal Supply Service	6,045,000	7,665,500	4,101,400	41,905,000	51,000,000
(3) Expenses, supply distribution	21,450,000	24,468,000	30,188,700	----------	----------
(4) Operating expenses, Utilization and Disposal Service	----------	----------	[2] 8,233,400	9,140,000	10,000,000
(5) Operating expenses, National Archives and Records Service	9,404,360	[1] 14,261,273	13,967,800	14,438,000	15,000,000
(6) Operating expenses, TCS	----------	----------	[2] 3,960,400	4,617,000	5,870,000
(7) Operating expenses, Transportation and Public Utilities Service	2,000,000	2,536,000	----------	----------	----------
(8) Salaries and expenses, Office of Administrator	225,000	247,000	[3] 1,285,000	1,408,000	1,500,000
Total	193,734,360	220,786,854	241,153,055	265,436,366	299,809,000
(b) Construction and improvement	86,675,000	248,847,000	306,451,800	281,605,600	293,265,000
(c) Stockpiling (S. & C.M.)	----------	22,237,000	39,977,300	18,100,000	28,145,000
(d) Other appropriation items (additional court facilities, expenses, U.S. court facilities, general supply fund, Federal telecommunications fund, allowances, former Presidents, working capital fund, refunds under Renegotiation Act)	200,000	22,750,000	18,400,000	54,810,000	36,887,000
(e) Limitation item (expenses, disposable of surplus property)	1,895,705	1,229,196	1,209,224	2,200,000	2,200,000
Total new obligational authority	282,505,065	515,850,050	607,191,379	622,151,966	660,306,000

[1] Includes $4,082,273 transferred from Department of Defense due to transfer of the Military Personnel Records Center at St. Louis, Mo., to GSA on July 1, 1960.
[2] Financed by transfers from other GSA appropriations.
[3] Includes $995,000 transferred from other GSA appropriations due to realinement of functions under sec. 106 of the Federal Property Act.
[4] Includes appropriations in annual act; supplemental appropriations proposed for later transmission in 1963; transfers and comparative transfers.

Mr. THOMAS. There are so many component parts. After all, these appropriations are for about 16 or 17 items. There are about six different services. When we go into the detailed justifications, you will find that the Public Buildings Service has about $400 million of the $660 million but that includes construction, sites, and repair and improvement which have varied through the years. Then you have to look at the rest of them. When we go into it, we will look into each one of the component parts. You will find the big increase goes back to one thing, that is real property management. As I say, there are some 16 or 17 different items in here. We shall try to go back on a 5-year basis for each one of them. That is the only way you will get a reasonably accurate idea of where the increase is. This one item, property management, is in the neighborhood of one-third of the entire budget. That is where the big increase is.

BUILDINGS MANAGEMENT EMPLOYMENT

Mr. EVINS. These charts are certainly very interesting. There are 10,000 employees in the Washington, D.C. region, and 2,700 employees in New York. When you get down to the South, Atlanta has just 810. Region 1, Boston, Mass., 799 employees; region 2, New York, 2,706 employees; region 3, Washington, D.C., 10,369 employess; region 4, Atlanta, 810 employees; region 5, Chicago, 2,328 employees; region 6, Kansas City, 1,315; region 7, Dallas, 1,222; region 8, Denver, 828; region 9, San Francisco, 1,272; region 10, Auburn, Wash., 529. There is a great difference.

Mr. BOUTIN. In direct ratio to workload. Of course, you have a couple of port cities here which are very significant. I think one thing that is interesting, Congressman, is that, in 1952, GSA had roughly 29,000 employees. In 1962, 31,500, with all the changes in the interim in workload.

Mr. OSTERTAG. That is outside of your contracts?

Mr. BOUTIN. That is all direct employees; force account employees.

Mr. OSTERTAG. But it is outside of your contracts?

Mr. BOUTIN. Yes.

Mr. THOMAS. Any further general questions? Let us take a look at the justifications.

Mr. BOUTIN. Mr. Turpin called to my attention, several days ago, the position charts by organization that are submitted with the justifications.

Mr. THOMAS. You can look over these charts, and they really tell the tale.

Mr. BOUTIN. Yes, they do, sir.

Mr. THOMAS. We shall go into the personnel load and the supergrades. We shall have to take that up, more or less, under each one of the big subheads.

SUMMARY JUSTIFICATION MATERIAL

Mr. Reporter, let us put the introductory statement in the record.

(The statement referred to follows:)

ESTIMATES OF APROPRIATIONS, 1964

INTRODUCTORY STATEMENT

The General Services Administration was established July 1, 1949, under authority of the Federal Property and Administrative Services Act of 1949 which authorized the transfer to it of previously established agencies engaged in performing functions related to Federal property and records management. Amendments to that act have authorized further transfers and functions.

GSA serves as the central agency for management of Government real and personal property, construction of public buildings, procurement of common-use supplies and services, stockpiling of critical materials, custody of the National Archives, and provision of archival, records, transportation, communications, and public utilities services.

Program operations are grouped under six services and are performed mainly through 10 regional offices under central office direction and supervision. Financial, administrative, and legal support for all service operations is provided by the respective integrated staff organizations financed by deposits, from funds provided for supported programs, into an administrative operations fund.

Basic operations are provided for in five operating expense appropriations. Policy direction and information pertaining to all programs are provided for in an appropriation for the Office of the Administrator. Other major operations

such as construction, improvement and repair of buildings, operation of a nationwide system of supply depots, stockpiling of critical materials, and others are provided for in separate appropriations. In addition, substantial financing is provided by transfers and reimbursements from funds appropriated directly to other major agencies of Government for services performed at their request.

GSA also serves, by delegation from the Office of Emergency Planning, as executor of defense-production expansion programs financed by allocations of borrowing authority made available to the President.

In addition to basic functions authorized by the Federal Property Act of 1949, as amended, other functions and operations are authorized by specific legislation, the most significant being:

Stockpiling Act of 1946 (Public Law 520, 79th Cong.).
National Industrial Reserve Act of 1948 (Public Law 883, 80th Cong.).
Public Buildings Act of 1959 (Public Law 86-249).
Reorganization Plans 18 and 20 of 1950.
Federal Records Act of 1950 (Public Law 754, 81st Cong.).
Materials Expansion Program (Executive Order 10480 of Aug. 14, 1953).
Interagency Motor Pools (Public Law 766, 83d Cong.).
Reorganization Plan No. 1 of 1957.

The full extent of GSA operations cannot be judged solely by the number and amount of direct appropriations in the annual act. As a service agency, extensive operations are conducted at the request of other agencies, and financed by reimbursements or transfers of funds. It is also significant that as of June 30, 1962, the assets for which GSA has responsibility for stewardship totaled over $11.8 billion, an increase of $467 million over the preceding fiscal year.

ORGANIZATIONAL CHART

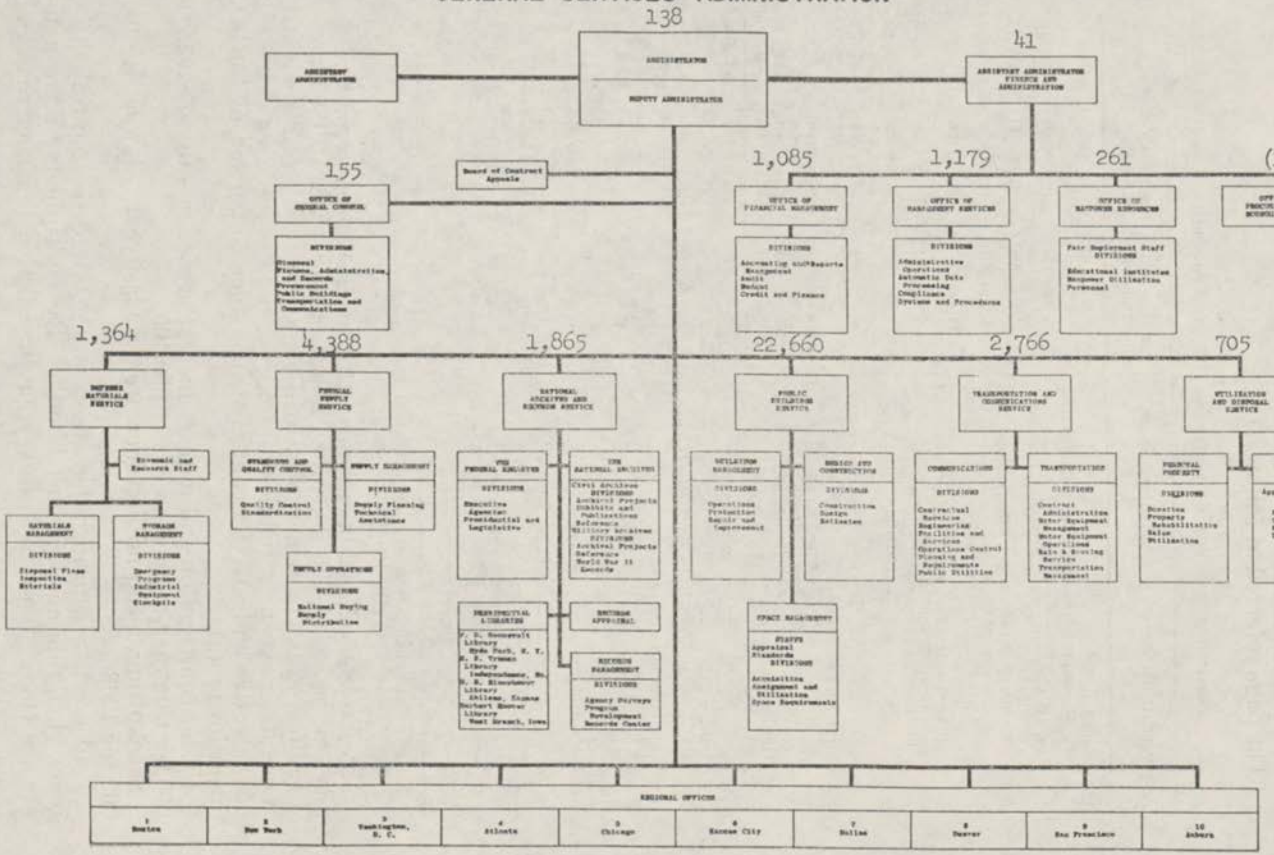
Mr. THOMAS. Gentlemen, look at the organization chart on page 3. This is a good chart and gives a bird's-eye view of the GSA organization. If we could add the total employees to each one of the organization setups, that certainly would be helpful.

Mr. Reporter, put this chart in the record.

(The chart referred to follows:)

NOTE: THE FIGURES INSERTED ON THE CHART REPRESENT ESTIMATED AVERAGE EMPLOYMENT FOR FISCAL YEAR 1964.

GENERAL SERVICES ADMINISTRATION


138
41
155
1,085
1,179
261
(16)
1,364
4,388
1,865
22,660
2,766
705
Board of Contract Appeals
Division
Division
Division

SUMMARY OF GSA PROGRAMS FOR 1964

Mr. THOMAS. Put page 4 in the record. This is the summary of all GSA appropriations.

(The page referred to follows:)

Summary of budget estimates for 1964 and comparison to 1963

Appropriation items (grouped by major purpose)	1963 comparable amount [1]	1964 budget estimates	Change, 1963 to 1964
(a) Basic operations:			
(1) Operating expenses, Public Buildings Service	$193,928,366	$216,439,000	+$22,510,634
(2) Operating expenses, Federal Supply Service	41,905,000	51,000,000	+9,095,000
(3) Operating expenses, Utilization and Disposal Service	9,140,000	10,000,000	+860,000
(4) Operating expenses, National Archives and Records Service	14,438,000	15,000,000	+562,000
(5) Operating expenses, Transportation and Communications Service	4,617,000	5,870,000	+1,253,000
(6) Salary and expenses, Office of Administrator	1,408,000	1,500,000	+92,000
Subtotal	265,436,366	299,809,000	+34,372,634
(b) Construction and improvement:			
(7) Repair and improvement	65,000,000	75,000,000	+10,000,000
(8) Payments, purchase contracts	5,150,000	5,200,000	+50,000
(9) Construction, public buildings projects	180,955,600	171,965,000	−8,990,600
(10) Sites and expenses	30,500,000	41,100,000	+10,600,000
Subtotal	281,605,600	293,265,000	+11,659,400
(c) Stockpiling:			
(11) Strategic and critical materials	18,100,000	28,145,000	+10,045,000
(d) Other appropriation items:			
(12) Expenses, U.S. court facilities	1,000,000	1,587,000	+587,000
(13) General supply fund (capital)	43,500,000	35,000,000	−8,500,000
(14) Federal Telecommunications Fund (later transmission)	10,000,000		−10,000,000
(15) Allowances, etc., former Presidents	310,000	300,000	−10,000
Subtotal	54,810,000	36,887,000	−17,923,000
(e) Limitation items:			
(16) Expenses, disposal surplus property	2,200,000	2,200,000	
(17) Administrative operations fund	(12,111,300)	(13,965,000)	(+1,853,700)
Total, direct appropriations	622,151,966	660,306,000	+38,154,034

[1] Includes appropriations in annual act; supplemental appropriations proposed for later transmission in 1963; transfers and comparative transfers.

Mr. THOMAS. Basic operations: Operating expenses, public buildings service, $216,439,000, which is an increase of $22,510,634.

Following my statement of a while ago, you will see this one item, "Operating expenses, public buildings service," is just about one-third of the entire budget. Of course, that is some 80 percent of the basic operations total.

Under construction and improvement, the cost goes up to $293,265,000 for this year, an increase of $11,659,400.

Stockpiling, a $10 million increase over last year. It was $18,100,000 for 1963.

Under other appropriation items, we get into the multiplicity of items that this agency must handle. By multiplicity, I mean just exactly that. We often think your jurisdiction is larger than some Cabinet posts.

Under the limitation items, we shall have to look at the disposal of surplus property. We want to go into Mr. Turpin's operation. He is up $1,853,700 to a total of $13,965,000.

Mr. TURPIN. We have a really good explanation.

Mr. THOMAS. You always have, and we shall be delighted to hear it. This is the administrative services, finance, bookkeeping, legal, and so forth and so on.

What is the chief counsel requesting, Mr. Moody?

Mr. MOODY. How much money, sir? $1,640,000.

Mr. THOMAS. How many lawyers do you have, Mr. Moody?

Mr. MOODY. I have 95 lawyers.

Mr. THOMAS. Have you any economists?

Mr. MOODY. No, sir.

Mr. THOMAS. Not any in the agency?

Mr. BOUTIN. Yes, sir.

Mr. MOODY. Yes, but not in the law shop.

Mr. THOMAS. The economists are in the Administrator's Office. He has a little set-up there, has he not?

Mr. BOUTIN. No. They are in Mr. Turpin's office.

Mr. THOMAS. Where are your economists, Mr. Turpin. I thought they were in the Administrator's Office.

Mr. TURPIN. You may be referring to the Office of Procurement and Economic Policy. There is no increase in the staff of 16—for that office engaged in developing and publishing Procurement Regulations.

HIGHLIGHTS OF BUDGET FOR 1964

Mr. THOMAS. We will look at that later. Gentlemen, let us put page 5 in the record. This is well done, Mr. Turpin. You have done a fine job here. This language is well put together.

(The material referred to follow:)

HIGHLIGHT OF PROVISIONS FOR GSA IN THE 1964 BUDGET

The budget of the United States for 1964 includes 15 items involving new obligational authority for GSA totaling $660,306,000, including $7,410,000 for increased pay costs under the Federal Salary Reform Act of 1962. This is $38,154,034 more than the comparable total for 1963. Major changes are as follows:

A. *Basic operations of GSA.*—The fields of real property, personal property, excess and surplus personal property, records, transportation and communications management and for top direction of GSA are provided for in 6 appropriation items. An increase of $34.4 million over comparable amounts for 1963 is requested mainly to provide: (1) a net increase of $6.1 million to finance additional buildings management workload due to completion of new buildings and transfers of buildings from other agencies (total additional amount of $10.2 million offset by a decrease of $4.1 million for space released due to new construction); (2) $9.2 million for full-year costs of additional leased space furnished agencies and financed by transfers of funds in 1963; (3) $2.5 million due to increased utilities and rental rates; (4) $3.1 million to partially restore level of building services to the 1962 minimum; (5) $9.1 million to administer an expanding worldwide common-use supply system being increasingly called upon by DOD; (6) $0.9 million to provide expanding and increased emphasis on reuse or prompt disposal of excess and surplus real and personal property; (7) $0.6 million in the records activity; and (8) $1.3 million for increased support for the Federal telecommunications system and Government-wide transportation services function.

B. *Construction and improvement.*—Appropriations of $293.3 million for 4 items are requested for 1964 as follows: (1) $172 million for direct construc-

tion, including $2.8 million for fallout shelters, provides for 27 new projects and one increase costing $164.6 million and 6 extension and conversion projects costing $7.4 million; (2) $41.1 million for design starts including acquisition of sites where necessary for approximately 77 additional projects involving improvement costs in the magnitude of $184 million; (3) $75 million for repair and improvement of public buildings for continuation of long-range programs of general repairs and improvements; and (4) $5.2 million for payment of principal, interest, and taxes on 20 projects remaining under lease-purchase contract.

C. *Stockpiling.*—The increase of $10 million for S&CM includes $7.1 million for rotation of materials, $1.9 million for storage costs, $0.8 million for disposals, $0.2 million for upgrading materials.

D. *Other appropriation items.*—The estimate of $1.6 million for "Expenses, U.S. court facilities" provides for costs, not otherwise provided for, incident to space expansion, furniture, and furnishings for the U.S. courts of appeals and district courts. The request of $35 million for the "General supply fund" in 1964 and the proposed supplemental request of $30 million in 1963 is required for continued expansion in supply and motor pool sales and other programs financed through the fund.

PAY ACT COSTS

Mr. THOMAS. You notice we had a little trouble in coming up with your figure on the pay increase for 1963 and 1964. This alludes to it, but in a left-handed manner, and it is far from being complete.

(Reading):

The budget of the United States for 1964 includes 15 items involving new obligational authority for GSA totaling $660,306,000, including $7,410,000 for increased pay costs under the Federal Salary Reform Act of 1962. This is $38,154,034 more than the comparable total for 1963.

So, the figure of $7,410,000 is quite incomplete, is it not?

Mr. TURPIN. No, sir. That is the amount that is included in the appropriation items before this committee, $7,410,000.

Mr. BOUTIN. But that does not include more than a million and a half we are absorbing.

Mr. TURPIN. That is correct, the different between $7,410,000 and $9,273,700.

Mr. BOLAND. You absorbed one and a half million in 1963?

Mr. TURPIN. In 1963. But in 1964, the total Pay Act cost is $9,273,700. We are asking in this budget for only $7,410,000.

Mr. THOMAS. Are you deducting from that, or is there absorption of any part of the Wage Board increase?

Mr. TURPIN. On the Wage Board increase, no, sir. There is an estimate in here under OE, PBS for Wage Board pay.

Mr. THOMAS. That is separate and distinct from the Pay Act of 1962, and that is the reason it is not included there?

Mr. TURPIN. That is correct.

Mr. THOMAS. The figure you refer to here is purely the Pay Act of 1962?

Mr. TURPIN. That is correct.

Mr. THOMAS. Your increase for 1964 is $9,273,000. You seek an appropriation for $7,410,000.

Mr. TURPIN. That is correct.

Mr. THOMAS. You are absorbing how much, then?

Mr. BOUTIN. About $1,800,000.

Mr. THOMAS. What did you absorb for 1963?

Mr. TURPIN. A million and a half.

Mr. THOMAS. What was your cost for 1963?

Mr. TURPIN. $4,554,000.

Mr. THOMAS. You have a supplemental for how much?

Mr. TURPIN. $3,031,000.

Mr. THOMAS. You did not absorb very much, did you?

Mr. TURPIN. A million and a half.

Mr. OSTERTAG. Mr. Turpin, you are absorbing nearly $2 million for fiscal 1964?

Mr. TURPIN. Yes, sir.

Mr. OSTERTAG. How are you doing that? How is that being achieved?

Mr. TURPIN. It is being financed out of funds available to carry on the programs, and without asking for additional money specifically for Pay Act increases.

Mr. THOMAS. That is not what he is asking. He is asking how you did it. You did not fill vacancies. Go on and tell him.

Mr. BOUTIN. That is correct, and forecasting increased productivity. We had 1,564 jobs in fiscal 1963 being vacated that we shall not fill in the PBS area alone.

SUPPLEMENTAL ESTIMATES, FISCAL YEAR 1963

Mr. THOMAS. Gentlemen, may I suggest that you look over page 6. You set out some supplementals. I have counted seven here. The seventh one goes back to our old jewel bearings plant in North Dakota, $1,150,000. Put page 6 in the record.

(The page referred to follows:)

SUPPLEMENTAL ESTIMATES FOR 1963 RECOGNIZED IN THE 1964 BUDGET

The Budget of the United States for 1964 recognizes under the head "Proposed for Separate Transmittal" the following supplemental estimates of appropriations to be submitted during 1963:

Operating expenses, PBS.—$3,370,000, of which (1) $2,400,000 is for costs due to wage board rate increases consisting of $1,554,000 for full-year costs in 1963 due to rates actually effected in 1962 between September 17, 1961, and June 30, 1962, and $846,000 for such increases to be granted during 1963 and (2) $970,000 for pay costs, together with additional amounts of $290,000 and $10,000 to be transferred from "Payments, Public Buildings Purchase Contracts" and "Allowances and Office Facilities for Former Presidents," respectively, as a result of the Federal Salary Reform Act of 1962.

Sites and expenses, public buildings projects.—$3,000,000 for acquisition of a site in the District of Columbia, drawings and specifications, supervision of construction, etc., for a Federal office building for headquarters activities of the Housing and Home Fiannce Agency. Total estimated cost of this project, including construction, is $32,000,000 as shown in the prospectus approved by the Public Works Committees in October 1962.

Hospital facilities in the District of Columbia.—$375,000 to provide additional funds for a matching grant for the construction of a hospital in southeast Washington, D.C. The sum of $3,000,000 already made available for this purpose is insufficient because of rising costs.

Operating expenses, FSS.—$2,095,000, of which (1) $1,100,000 is required to finance an additional $5.5 million of sales of stores items from stock as a result of the new issuance of DOD regulations governing relationship between military ordering activities and GSA, and implementation of the MILSTRIP system and (2) $995,000 for increased pay costs due to the Federal Salary Reform Act of 1962.

General supply fund.—$30,000,000 for additional capital to provide adequate financing for increased sales, primarily to DOD, and for additional equipment investment.

Federal telecommunications fund.—$10,000,000 to provide initial capital for this new fund established by Public Law 87-847, approved October 23, 1962, to finance the procurement of equipment and operating facilities and other

expenses necessary to the operation of a Federal telecommunications system.

Improvements, National Industrial Reserve Plant No. 485.—$1,150,000 to provide for certain improvements in NIR Plant No. 485 to assure the continued production of jewel bearings deemed essential to national defense requirements.

In addition to the above the Budget recognizes supplemental requirements as a result of the Federal Salary Reform Act of 1962 as follows: Operating expenses, UDS, $270,000; operating expenses, NARS, $438,000; operating expenses, TCS, $200,000; strategic and critical materials, $100,000; and salaries and expenses, Office of Administrator, $58,000.

Mr. THOMAS. What did we allow last year on that figure?

Mr. BOUTIN. Nothing.

Mr. THOMAS. Yes, we did.

Mr. BOUTIN. Excuse me. But it never was passed. It was $1 million, Mr. Chairman, that was the mark of the House.

Mr. THOMAS. That was not passed, however.

Mr. BOUTIN. No; it was not.

Mr. THOMAS. So, this is the same million dollars, but it has gone up $150,000 in the meantime?

Mr. BOUTIN. I think we asked for more than that originally.

Mr. THOMAS. Look over your supplementals, gentlemen. Operating expenses, Public Buildings Service, $3,370,000. Then it is broken down. Of that, $2,400,000 is for costs due to wage board rate increases, and so forth.

For sites and expenses, you have $3 million.

For hospital facilities in the District of Columbia, $375,000. What did we make available last year—$3 million?

Mr. BOUTIN. There was $3 million in the fiscal 1962 Supplemental Appropriation Act.

Mr. TURPIN. The supplemental of $375,000 for 1963 is the same item that was before the committee last year. It was passed by the House but did not become law.

Mr. THOMAS. We supplied the last amount of your authorization, though, in the 1962 budget, did we not?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Then this is the deficiency. Was there any authorization for that?

Mr. TURPIN. Yes, sir; there was authorization.

Mr. THOMAS. Passed when—that same year?

Mr. TURPIN. Yes; approved July 1, 1962.

Mr. THOMAS. I remember that.

Then there is Operating Expenses, Federal Supply Service. I notice your supply fund is $30 million for 1963, and you are coming in for another one in 1964 for $35 million. That is $65 million.

Mr. BOUTIN. And we are really hurting for this item, Mr. Chairman.

Mr. THOMAS. Your Federal telecommunications fund is $10 million. That is a new item. This is all quite interesting.

Your terminology is set out on page 7. "UDS" is a new term—utilization and disposal. We set that up last year.

LEASING AUTHORITY

I note on page 10, in the language changes [reading]:

The eighth paragraph is recommended for deletion because it precludes the procurement of new privately owned buildings to be constructed to meet Government requirements and leased to the United States over a term of years sufficiently long to substantially amortize the owners' investment unless a prospectus for the project is approved by the Public Works Committees. GSA is currently leasing more than 42 million square feet of space at an annual rental of over $100 million. Much of this space is substandard and inefficient for the conduct of agency activities occupying the space. Changes in agency programs, including expansion, dictate the acquisition of additional and/or improved space, or space at new locations. In addition, large blocks of space in which to consolidate agency activities are often not available in the community without new construction. For meeting these needs, much of which cannot be fulfilled in the foreseeable future through Federal construction at present budgeted levels, it is most desirable that GSA retain the maximum degree of flexibility in exercising its leasing authority so as to make timely acquisitions under prevailing conditions of the commercial rental market. The requirement for prospectus approval of lease construction transactions is inconsistent with this objective.

I am afraid the GSA misinterpreted the language. The language was intended absolutely to forbid the leasing of that space under your jurisdiction, and requiring of you to come to the proper committees for authorization. Your language is quite weak. The reason you want this deleted is that you do not want to come back to Congress every year for your funds and authorization. In that regard, you are no different from any other agency that wants back-door authority.

PUBLIC BUILDINGS SERVICE, GENERAL SERVICES ADMINISTRATION

WITNESSES

ROBERT T. DALY, COMMISSIONER, PUBLIC BUILDINGS
WILLIAM A. SCHMIDT, DEPUTY COMMISSIONER
ROBERT B. CONRAD, COMMISSIONER, TRANSPORTATION AND COMMUNICATIONS
WILLIAM P. TURPIN, ASSISTANT ADMINISTRATOR FOR FINANCE AND ADMINISTRATION
CHARLES G. PALMER, DEPUTY ASSISTANT COMMISSIONER, DESIGN AND CONSTRUCTION

Mr. THOMAS. Gentlemen, turn now to the real property activities administrated by the Public Buildings Service. Mr. Reporter, insert pages 13 and 14 in the record.

(The pages follow:)

FUNCTIONS PERFORMED BY THE PUBLIC BUILDINGS SERVICE

Real property activities of GSA administered by the Public Buildings Service can be summarized in two general categories: (a) Those financed by direct appropriations, and (b) those financed by transfers of funds or reimbursements from other Government agencies.

(*a*) Activities financed by direct appropriations to GSA are:

(1) *Operation and management.*—Acquisition, operation, maintenance, protection, and utilization of general-purpose buildings and space; operation of the GSA communications system; and overall administration of real property programs. Cost of these functions is financed from the "Operating expenses, PBS" appropriation.

(2) *Repair of buildings.*—Maintaining, repairing, remodeling, improving, and other alterations of federally owned buildings under the jurisdiction of GSA. These activities are financed from the appropriation "Repair and improvement of public buildings."

(3) *Construction.*—Acquisition of sites; preparation of drawings and specifications; construction; extension and conversion of buildings, and supervision of construction. These operations are financed mainly by appropriations "Construction, public buildings projects" and "Sites and expenses, public buildings projects."

(4) *Miscellaneous activities.*—Provision of furniture, furnishings, and space for U.S. courts; payment of principal, interest, and taxes relating to lease-purchase contracts, and a Federal grant toward construction of Southeast Hospital, Washington, D.C.

(*b*) Activities financed by transfers of funds or reimbursements from other Government agencies are:

(1) *Construction.*—Transfers of funds from various departments and agencies relating to acquisition of sites; construction, repair and alteration of research and laboratory facilities; schools and dormitories; hospitals, clinics and public health facilities; general and special purpose buildings; etc. Amounts to be transferred for the foregoing purposes are estimated at $98.9 million in 1963 and $99.7 million in 1964.

(2) *Operation, management, and special alterations.*—Reimbursements from various Government agencies for the operation and protection of Government owned and leased space; operation of communication facilities, such as consolidated switchboards and teletypewriter service; job order work for providing special facilities and improvements, such as the post office modernization program; providing special services, such as security guarding, etc. Reimbursements for the foregoing purposes are estimated at $137.4 million in 1963 and $152.3 million in 1964.

Summary of new obligational authority and average employment

	New obligational authority		Average employment					
			Total		Central office		Field	
	1963	1964	1963	1964	1963	1964	1963	1964
A. New obligational authority and related employment:								
Operating expenses, PBS	$193,928,366	$216,439,000	14,920.9	16,273.0	216.5	215.6	14,704.4	16,057.4
1. Buildings management (employment in BM fund)	182,815,366	204,619,000	14,300.4	15,642.3	59.0	59.0	14,241.4	15,583.3
2. Space management	4,503,000	4,903,000	450.0	462.0	77.5	77.5	372.5	384.5
3. Design and construction (employment in CS fund)	678,000	703,000	58.5	58.5	31.0	31.0	27.5	27.5
4. Program planning	506,000	529,000	39.8	39.2	18.0	17.6	21.8	21.6
5. Service direction	810,000	842,000	72.2	71.0	31.0	30.5	41.2	40.5
6. Administrative operations	4,616,000	4,843,000						
Repair and improvement	65,000,000	75,000,000						
Program	63,962,000	73,707,000	1,415.8	1,495.3	26.0	26.0	1,389.8	1,469.3
Employment in BM fund			943.0	943.0	14.0	14.0	929.0	929.0
Employment in CS fund			472.8	552.3	12.0	12.0	460.8	540.3
Administrative operations	1,038,000	1,293,000						
Construction, public buildings projects	180,955,600	171,965,000						
Sites and expenses, public buildings projects	27,500,000	41,100,000						
Program	27,500,000	41,100,000	45.0	45.0	22.0	22.0	23.0	23
Administrative operations	[1] (623,000)	[1] (640,000)						
Payments, public buildings purchasing contractor	5,440,000	5,200,000						
Additional court facilities	8,500,000							
Expenses, U.S. court facilities		1,587,000						
Total NOA, subtotal employment	481,323,966	511,291,000	16,381.7	17,813.3	264.5	263.6	16,117.2	17,549.7
B. Other employment:								
Transfers:								
Construction services (other GSA appropriations)			243.3	276.5	135.5	140.0	107.8	136.5
Construction services (reimburse other agencies)			583.4	4662.7	59.5	61.0	523.9	601.7
Revolving and trust funds:								
Buildings management fund (other GSA appropriations)			802.0	810.0			802.0	810.0
Buildings management fund (reimburse other agencies)			3,067.3	3,097.3			3,067.3	3,097.3
Consolidated working fund (trust fund)			1.0				1.0	
Subtotal, other employment			4,697.0	4,846.5	195.0	201.0	4,502.0	4,645.5
Total employment			21,078.7	22,659.8	459.5	464.6	20,619.2	22,195.2

[1] Financed by prior appropriations for sites and expenses.

REIMBURSABLE SERVICES FOR OTHER AGENCIES

Mr. THOMAS. I have some notes here. In 1964, $100 million for construction for other agencies. This goes to your general fund from other agencies. In 1964, $152 million for other services for other agencies. In your general fund this year you are doing about $252 million for agencies not appropriated in this budget. Is that figure substantially correct?

Mr. BOUTIN. The total amount that we are doing for other agencies in reimbursable construction this year is how much money?

Mr. DALY. That appears on page 13, sir, and it is $99,700,000 for construction with transfer funds.

Mr. THOMAS. I just lumped it as $100 million, so we are not very far apart.

Mr. DALY. Yes, sir; also $152,300,000 for reimbursable operations for operation, management, and special alterations.

Mr. THOMAS. That is about right.

Mr. DALY. Yes, sir.

OPERATING EXPENSES, PUBLIC BUILDINGS SERVICE

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	3,759	4,653	4,933
	Positions other than permanent	22		
	Other personnel compensation	24	2	39
	Total personnel compensation	3,806	4,654	4,973
12	Personnel benefits	278	354	378
21	Travel and transportation of persons	308	400	450
	Payment to interagency motor pools	29	33	33
22	Transportation of things	19	8	8
23	Rent, communications, and utilities	147	163	163
24	Printing and reproduction	96	85	85
25	Other services	169,801	181,177	204,623
	Payments to "Administrative operations fund"	3,955	4,616	4,843
	Services of other agencies	77	80	80
26	Supplies and materials	70	71	71
31	Equipment	862	733	733
32	Lands and structures	28		
42	Insurance claims and indemnities	28		
	Total obligations	179,503	192,374	216,439

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	527	569	581
Full-time equivalent of other positions	5		
Average number of all employees	482	562	572
Number of employees at end of year	500	569	581
Average GS grade	9.2	9.1	9.2
Average GS salary	$8,001	$8,415	$8,540

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Buildings management	170,495	181,166	204,519
2. Space management	4,234	4,559	4,893
3. Design and construction	568	679	703
4. Program planning	471	507	529
5. Service direction	714	811	842
6. Administrative operations	3,955	4,616	4,843
Total program costs, funded [1]	180,437	192,338	216,329
Change in selected resources [2]	−934	36	110
Total obligations	179,503	192,374	216,439
Financing:			
Advances from other accounts for rental of space (−)	−488	−31	
Transferred from "Road construction" (liquidation of contract authorization), Bureau of Indian Affairs, Interior (75 Stat. 353 and 76 Stat. 728) (−)	−1	−5	
Unobligated balance lapsing	402		
New obligational authority	179,415	192,338	216,439
New obligational authority:			
Appropriation	175,120	181,200	216,439
Transferred from other agencies for space costs (75 Stat. 353 and 76 Stat. 728)	8,679	9,868	
Transferred (5 U.S.C. 630c) from "Operation and maintenance, Army"	781		
Transferred (5 U.S.C. 630d) to (−)—			
"Operating expenses, Utilization and Disposal Service"	−4,443		
"Operating expenses, Transportation and Communications Service"	−503		
"Salaries and expenses, Office of Administrator"	−218		
Appropriation (adjusted)	179,415	191,068	216,439
Proposed supplemental due to pay increases		970	
Proposed transfers from—			
"Payments, public buildings purchase contracts," due to pay increases		290	
"Allowances and office facilities for former Presidents," due to pay increases		10	

[1] Includes capital outlay as follows: 1962, $890,000; 1963, $733,000; 1964, $733,000. Excludes adjustment of prior year cost −$39,000.

[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $1,392,000; (1962 adjustments, −$56,000); 1962, $514,000; 1963, $550,000; 1964, $660,000.

Mr. THOMAS. Turn to operating expenses, PBS. It might be well to put the table on page 15 in the record, and the reading matter on pages 16 and 17. It is very well done.

(The pages follow:)

OPERATING EXPENSES, PBS

Summary reconciliation of 1964 estimate to 1963 funds

1963 appropriation in annual act		$181,200,000
Transferred from other agencies for space costs (75 Stat. 353 and 76 Stat. 728)		9,868,266
Advances from other accounts for rental of space		36,100
Proposed supplementals:		
Cost of wage board rate increases effected in 1962 from Sept. 17, 1961 to June 30, 1962	$1,554,000	
Pay Act costs	970,000	
		2,524.000
Proposed transfers to cover Pay Act costs from:		
Payments, public buildings purchase contracts	290,000	
Allowances, former Presidents	10,000	
		300,000
Comparative total for 1963		193,928,366
Decreases in 1964:		
Space released due to completion of new buildings:		
Government-owned space	1,220,000	
Leased space	2,935,000	
		4,155,000
Subtotal		189,773,366
Increases in 1964:		
Government-owned space: increased utilities cost $1,130,000; space in newly constructed buildings $6,871,000; space in buildings transferred to GSA and abandoned post office buildings $2,553,000; partial restoration of services to minimum level provided in 1962 $3,100,000; annualization 1963 wage board rate increases from July 1 through Sept. 15, 1962 $110,000	13,764,000	
Leased space: increased rental rates $1,090,000; increased utilities cost $230,000; annualization cost of agencies' expansion space $9,158,634; additional leased space $221,000	10,699,634	
Temporary space and moving costs incident to new construction	780,000	
Increase in space management	217,000	
Increase in administrative operations	90,000	
Pay Act costs	1,115,000	
		26,665,634
1964 estimate		216,439,000

Analysis by activities

Activities	1963 adjusted	Decreases	Increases	1964 estimate
1. Buildings management	$182,815,366	$4,155,000	$25,958,634	$204,619,000
2. Space management	4,503,000		400,000	4,903,000
3. Design and construction	678,000		25,000	703,000
4. Program planning	506,000		23,000	529,000
5. Service direction	810,000		32,000	842,000
6. Administrative operations	4,616,000		227,000	4,843,000
Total	193,928,366	4,155,000	26,665,634	216,439,000

1963 appropriation	$181,200,000
Adjustments	+12,728,366
1963 comparative	193,928,366
Change	+22,510,634
1964 estimate	216,439,000

GENERAL STATEMENT

This appropriation provides for the basic real property operations of General Services Administration, including the acquisition, operation, maintenance, protection, and utilization of general-purpose buildings and space; and overall direction of buildings design, construction, repair, and modernization.

The appropriation request for 1964 is a net increase of $22,511,000 above a comparable amount for 1963. The 1963 amount includes proposed transfers of $9,904,000 for costs of expansion space acquired in 1962 and 1963, not provided for in GSA's 1963 budget. Also included is an estimate of $1,554,000 anticipated for later transmittal for full-year costs of 1962 wage board rate increases effected between September 17, 1961, and June 30, 1962. The net increase for 1964 includes $110,000 for full-year costs of wage board increases effected July 1 through September 15, 1962, but does not include increases effected subsequent to September 15, 1962.

The net increase of $22,511,000 provides primarily for partial restoration of services to minimum level provided in 1962; management and operation of new Federal buildings scheduled for occupancy in 1963 and 1964; increased rental rates and utility costs; full-year costs of rent and operation of additional leased space acquired during 1963 for other agencies with funds transferred from those agencies to cover the part-year costs; increase in space management to carry out objectives of Executive Order 11035; offset by credits due to new construction.

Continuing the policy established in 1962, fund requirements are not included in this estimate for the rental and operation of additional leased space to be acquired during 1964 to support expanding programs of Federal agencies of the executive branch, but are included in estimates of the other agencies.

Fair value of property received from other appropriations or funds without cost for use by GSA (in thousands of dollars):

	1962 actual	1963 estimate	1964 estimate
Real property	7,072	35,809	12,620
Personal property	33	35	57

From the budget for 1964.

The amount of $12.6 million reflected for real property in 1964 represents excess installations to be acquired from DOD and proposed to be added to the GSA inventory for utilization for various Federal agencies. Installations include the Mitchel Air Force Base, Long Island, N.Y. ($6.6 million) and a portion (47 buildings) of the Naval Weapons Plant, Washington, D.C. ($6 million). The minor items of personal property are primarily office equipment acquired from excess.

The estimate for 1964 includes $2,385,000 for increased pay costs as a result of the Federal Salary Reform Act of 1962.

The President's budget includes an "Item proposed for separate transmittal" for 1963 in the amount of $2,400,000 comprising $1,554,000 for full-year cost of 1962 wage board rate increases effected September 17, 1961, through June 30, 1962, and $846,000 for wage board increases estimated to occur in 1963.

As in prior years, GSA's 1964 estimates are based on continued application of "Principles Governing the Financing, Management, and Servicing of Buildings," published December 2, 1959, after review by the General Accounting Office and the Bureau of the Budget.

Detailed application of the $22,510,634 increase is explained in the detailed estimates which follow.

APPROPRIATION LANGUAGE

"For necessary expenses, not otherwise provided for, of real property management and related activities as provided by law; rental of buildings in the District of Columbia; restoration of leased premises; moving Government agencies (including space adjustments) in connection with the assignment, allocation, and transfer of building space; acquisition by purchase or otherwise of real estate and interests therein; and contractual services incident to cleaning or servicing buildings and moving; [$181,200,000] *$216,439,000*: [*Provided*, That this appropriation shall be available, without regard to section 322 of the Act of June 30, 1932, as amended (40 U.S.C. 278a), with respect to buildings, or parts thereof, heretofore leased under the appropriation for "Emergency operating expenses":] *Provided* [*further*], That this appropriation shall be available to provide such fencing, lighting, guard booths, and other removable facilities on private or other property not in Government ownership or control as may be appropriate to enable the United States Secret Service to perform its function of protecting the person of the President of the United States and his immediate family, the President-elect, and the Vice President pursuant to title 18, U.S.C. 3056."

Explanation of proposed changes in appropriation language

Elimination of the first privso from the language is recommended inasmuch as there are no leases or extensions of leases now in effect which were initially financed under the appropriation for "Emergency operating expenses."

GOVERNMENT-OWNED SPACE

Mr. THOMAS. Let us look over your buildings management. This is where the big money is. This is your operating expense under the Public Buildings Service, and the big heading is "Buildings Management." I have a longhand note here: 5 million square feet of Government-owned space in 1964 taken over from DOD and one other location. I came up with the figure of 6.4 million, but your Government-owned space from 1963 to 1964 goes up about 5 million. Is that the space you took over from the military?

Mr. SCHMIDT. The net increase in Government owned under OE, PBS is 4.936 million square feet. A small portion of that, something less than 1 million square feet, was taken over from the military, the Naval Weapons Plant in Washington, 872,000 square feet, and an excess naval plant in St. Louis with 49,000 square feet.

Mr. THOMAS. Break down the total figure of Government-owned space, the new additions from 1963 to 1964, between newly constructed and space you acquired from other departments as well as DOD. You use the round figure of 5 million, or is it 6.4 million?

Mr. DALY. I think we can use the round figure of 5 million.

Mr. THOMAS. I will go back in your justifications in a minute and show where it is 6.4 million, but go ahead.

Mr. DALY. There is 375,000 square feet in 12 buildings to be completed in 1963, and 4,206,000 square feet in buildings to be completed

in fiscal 1964. This will be Government-owned space that we will have to take over, manage and operate.

Mr. THOMAS. You are going to use the figure 4 million square feet of Government-owned new space that you are going to move into in 1964?

Mr. DALY. 4,581,000 square feet of new space.

Mr. THOMAS. How much are you going to take over from DOD and some other agencies in 1964?

Mr. DALY. What was the figure from DOD, Mr. Schmidt?

Mr. SCHMIDT. 921,000 from the Department of Defense, and one building at Anchorage, Alaska, 34,000, from that Post Office Department.

Mr. THOMAS. The other figure, 6.4 million, is the correct figure, then, including DOD, other agencies, and brandnew construction of 5 million. That is 6.4 million that you are going to take over, maintain and operate, that you have not operated before. Is that correct?

Mr. SCHMIDT. We will be reducing, however, 940,000 square feet, buildings vacated, demolished or disposed of.

Mr. THOMAS. You had better stay with what I asked you; 6.4 million is correct for brandnew space that you are taking over that you have not had before; 5 million of it is new buildings; 1.4 million is from DOD and other agencies. Correct?

By how much are you going to reduce it?

Mr. SCHMIDT. 940,000 square feet of Government-owned space. This will be disposed of with the completion of new buildings.

Mr. THOMAS. We shall go to lunch now and come back at 1 o'clock.

BILLINGS, MONT., PROJECT

Mr. THOMAS. Will the committee please come to order.

Have you any questions, Mr. Jonas?

Mr. JONAS. What happened to the building in Billings, Mont.—is that going forward?

Mr. BOUTIN. It is going forward, Congressman.

Mr. JONAS. I keep getting letters from people out there, thinking I have something to do with it, protesting about a building.

Mr. BOUTIN. We get most of ours from a single source.

Mr. JONAS. Did you reconsider the matter and review it again after the protest came in?

Mr. BOUTIN. Yes, we did.

Mr. JONAS. There is quite an article in a national magazine about it, the U.S. News & World Report.

Mr. BOUTIN. It was unilateral in nature. It represented one side of the picture and did not represent the actual economies that are achieved through the construction of this building. This is a good project. As individuals we always feel badly to say we are all done in leasing a man's property but it is always economically sound in every instance where we do it.

Mr. JONAS. I wanted the record to show whether you had recanvassed the situation following the complaint.

Mr. BOUTIN. We thoroughly reviewed it.

Mr. JONAS. That is all, Mr. Chairman.

Buildings Management

Mr. Thomas. Genelemen, we will go now to Public Buildings Management. This is your big item. Page 18 shows for 1963 you had $182,815,366, and an increase up to $204,619,000 for 1964 which is an increase of $21,803,634.

Put pages 18, 19, and 20 in the record, Mr. Reporter.

(The pages follow:)

Buildings management

Year	Amount	Average employment [1]
1963	$182,815,366	
Change	+21,803,634	
1964	204,619,000	

[1] All employment shown under Buildings Management Fund.

Highlight

This activity provides for—

(*a*) rental, operation, protection, and utilization of Government owned, leased, and purchase contract space, as indicated in the following table:

Average net square feet

[Thousands]

	1962 actual	1963 estimate	1964 estimate
Government-owned space	68,031	71,257	76,193
Leased space	24,018	26,531	27,481
Purchase contract space	1,216	1,306	1,306

and (*b*) operation of GSA system of joint-use communication facilities.

The net increase for 1964 of $21,804,000 over the comparable amount for 1963 is composed generally of increased workload with fixed costs. (From the budget for 1964.)

Operation and protection of Government-owned space	+$13,046
Rental, operation, and protection of leased space	+7,851
Temporary space and moving costs incident to new construction	+780
Operation of communication facilities	+127
Total	21,804

The following tabulation details the net increase for 1964 over a comparable amount for 1963:

	Deductions	Additions	Net change
Operation and protection of Government-owned space:			
New buildings to be completed		$6,871,000	$6,871,000
Transfer of buildings to General Services Administration		2,043,000	2,043,000
Transfer of vacated Post Office buildings		510,000	510,000
Increased utilities cost		1,130,000	1,130,000
Partial restoration of building services		3,100,000	3,100,000
Pay Act costs		502,000	502,000
Wage board annualization, July 1 to Sept. 15, 1962		110,000	110,000
Buildings to be disposed of or demolished	$1,220,000		−1,220,000
Net increase in Government-owned space cost	1,220,000	14,266,000	13,046,000
Rental, operation and protection of leased space:			
Increased rental costs, existing space		1,090,000	1,090,000
Annualization cost of agencies expansion space		9,158,634	9,158,634
Additional leased space		221,000	221,000
Increased utilities cost		230,000	230,000
Pay Act costs		86,000	86,000
Rented space to be released due to new construction	2,935,000		−2,935,000
Net increase in leased space	2,935,000	10,785,634	7,850,634
Temporary space and moving costs incident to new buildings: Increased workload		780,000	780,000
Operation of communication facilities: Pay Act costs		127,000	127,000
Total net increase over 1963	4,155,000	25,958,634	21,803,634

The estimate for 1964 reflects the continued aggressive program of public building construction and conversion of existing Government-owned facilities to replace inadequate and obsolete buildings, and the release of rented quarters. The program, however, continues to be aggravated by the expansion of Federal agencies, such as HEW, Treasury, POD, U.S. courts, FAA, and Commerce. Executive Order 11035, issued July 9, 1962, provides greater authority to GSA in the assignment and utilization of space for the Federal agencies. Through the use of standards and control of space utilization, agency requests for additional space to house expanded programs which could not be accommodated in quarters already assigned has resulted in substantial reduction of such requests. These reductions have resulted in obviating more than $2 million in rental costs for expansion space in 1963 and 1964 (which would have been financed initially by other agency appropriations). Also, the construction program will result in the replacement of obsolete Government-owned and rented space having an operating and rental cost of more than $4 million during 1964.

The $6.2 million reduction made in the 1963 appropriation request had to be applied to the operation of buildings and resulted in a reduction in the service level below acceptable standards. The 1964 estimate provides for only a partial improvement in poor service levels and will still result in a level of service below acceptable minimums and substantially less than commercial standards.

Consistent with the revised space financing policy placed in effect in 1962, no provision is made for financing of rental and related building service costs for space for new or expanded program requirements of Federal agencies during 1964.

No provision has been made for annualizing wage board increases which may be granted during 1963 after September 15, 1962, nor for those increases to be effected during 1964. Financing for these costs will be requested in supplemental estimates during 1964.

The following table sets forth the workload, unit costs, and performance costs by subactivities for 1962, 1963, and 1964 for the total program under this activity. It reflects application of increases of $21,803,634 in 1964 over comparable amounts for 1963, each of which is explained in the narrative justification which follows.

GOVERNMENT OWNED AND LEASED SPACE

Mr. THOMAS. We covered some of this in general this morning. Government-owned space for 1962 is 68,031,000 square feet. For 1963 it went up to 71,257,000 and for 1964, 76,193,000.

We broke this down in some detail, that GSA has for the fiscal year 1964 about 6.4 million square feet more under its jurisdiction in the form of Government-owned space to maintain and operate than it did in 1963. About 5 million of that square footage is in new buildings coming into operation in fiscal year 1964 and the remaining 1.4 million square feet is in buildings taken over from DOD and other Government agencies.

Leased space. The table speaks for itself. It goes up from 26,531,000 square feet in 1963 to 27,481,000 in fiscal year 1964.

PURCHASE CONTRACT SPACE

Purchase contract space is the same, 1,306,000 square feet in fiscal year 1963 and 1,306,000 in fiscal year 1964.

What do you mean by "purchase contract space"?

Mr. BOUTIN. This is leased purchase space, Mr. Chairman. We have 20 buildings where we entered into contracts under previous authorization whereby we pay a rental equal to the amortization cost, taxes, and related expenses over a set period of years.

Mr. THOMAS. Your budget for this year includes 20 buildings and you gave us a little statement before to the effect that it was your hope and aspiration through some good hard trading and bargaining you would acquire 2 of those 20 buildings at a very nominal cost.

Mr. BOUTIN. That is correct, Mr. Chairman, 2 of the 20, leaving a balance of 18.

Mr. THOMAS. How much money will you actually save in acquiring this? I mean not over a period of years but at the moment the takeover occurs?

Mr. TURPIN. Burlington, Vt., $237,000.

Mr. BOUTIN. $51,930 for Durham, N.H.

Mr. THOMAS. That is a feather in your cap. You save the taxpayers $290,000. We will go into detail on that a little bit later.

BUILDINGS MANAGEMENT INCREASES

The net increase in buildings management for 1964 of $21,804,000 over 1963 is broken down into the component parts shown here. We went into that generally this morning and we can go into it in more detail now.

This is $21,804,000 increase, this year over last year, and it is confined to one item and that is buildings management. In other words, that is the maintenance and operation of the Government owned and leased property. That is more than 50 percent of your overall increase for the entire agency; is that correct?

Mr. BOUTIN. That is correct.

Mr. THOMAS. To be exact it is $21.8 million over $38.2 million.

Operation and protection of Government-owned space, $13,046,000. That is an increase this year. We will look into that in detail.

Rental, operation, and protection of leased space, $7,851,000.

We have $780,000 for temporary space and moving costs incident to new construction.

Operation of communication facilities, $127,000.

OPERATION AND PROTECTION OF GOVERNMENT-OWNED SPACE

This is an interesting table; operation and protection of Government-owned space. We have increases shown here.

New buildings to be completed is $6,871,000.

Transfer of buildings to GSA, $2,043,000.

Transfer of vacated post office buildings, $510,000.

Increased utility costs, $1,130,000.

Partial restoration of building service, $3.1 million. We spoke of this this morning. That is mainly janitorial services.

Pay act costs, $502,000.

Wage board costs, $110,000.

Buildings to be disposed of or demolished, that is a reduction of $1,220,000. You subtract that and come up with a net increase of $13,046,000.

I noticed in here you have your wage board. I didn't think you were going to include that in this item.

Mr. TURPIN. That is just for those wage board increases that become effective between July 1 and September 15, 1962. They were known at the time this budget was submitted to the Bureau and under the ground rules the estimate for that is included.

The pay increases following September 15 will have to be a matter of a supplemental.

Mr. THOMAS. You continue with this table on the next page.

"Rented space to be released due to new construction." In round figures that is $3 million.

VARIATION IN UNIT COSTS

Mr. JONAS. Why did your unit cost go down in 1963 below 1962 and is back up now in 1964?

Mr. BOUTIN. Due to cut in our services, Mr. Congressman. We cut from an 80 percent effective cleaning job to about 60 percent. We had to, to keep within our appropriation.

Mr. JONAS. Did you find that to be satisfactory?

Mr. BOUTIN. No, sir. We have dirty buildings as a result.

Mr. JONAS. That accounts for the spread there.

Mr. BOUTIN. Yes.

SPACE ASSIGNMENT AND UTILIZATION

Mr. THOMAS. I have a paragraph I would like to read into the record:

The estimate for 1964 reflects the continued aggressive program of public building construction and conversion of existing Government-owned facilities to replace inadequate and obsolete buildings, and the release of rented quarters. The program, however, continues to be aggravated by the expansion of Federal agencies, such as, HEW, Treasury, POD, U.S. courts, FAA, and Commerce. Executive Order 11035, issued July 9, 1962, provides greater authority to GSA in the assignment and utilization of space for the Federal agencies. Through the

use of standards and control of space utilization, agency requests for additional space to house expanded programs which could not be accommodated in quarters already assigned has resulted in substantial reduction of such requests. These reductions have resulted in obviating more than $2 million in rental costs for expansion space in 1963 and 1964 (which would have been financed initially by other agency appropriations).

You were paid $2 million right there. However, I have a second point in reading this. If you don't go back to doing a turnkey job, you are making your job harder. If you let the agencies finance the first-year cost and then come to you the second year after they have already moved, you have virtually undone your order and your authority.

It is one thing to say, "Well, we are going to get them out but we are going to reduce," but you are doing it the hard way. If you control the first year, half your troubles are over with. You are not going to give an agency 300,000 feet the first year and the second year ask them to go down to 250,000. If you do you are going to incur more cost and more headaches.

(Reading):

The $6.2 million reduction made in the 1963 appropriation request had to be applied to the operation of buildings and resulted in a reduction in the service level below acceptable standards. The 1964 estimate provides for only a partial improvement in poor service levels and will still result in a level of service below acceptable minimums and substantially less than commercial standards.

WORKLOAD AND COSTS, BUILDINGS MANAGEMENT

Mr. Reporter, put the table on page 21 in the record.

(The table follows:)

Summary by subactivity showing workload, unit costs, and total costs for 1962–64

[All square footage is net]

Subactivity	1962			1963			1964			1964 increase over 1963
	Workload, average square feet	Unit cost	Total cost	Workload, average square feet	Unit cost	Total cost	Workload, average square feet	Unit cost	Total cost	
(*a*) Operation and protection of Government-owned space	68,031,000	$1.332	$90,641,630	71,257,000	$1.249	$89,003,000	76,193,000	$1.339	$102,049,000	+$13,046,000
Portion in District of Columbia	29,477,000	1.344	39,622,000	29,256,000	1.288	37,691,000	31,220,000	1.374	42,906,000	5,215,000
Portion outside District of Columbia	38,554,000	1.323	51,019,630	42,001,000	1.222	51,312,000	44,973,000	1.315	59,143,000	7,831,000
(*b*) Rental, operation, and protection of leased space	24,018,000	2.927	70,295,564	26,531,000	3.158	83,779,366	27,481,000	3.334	91,630,000	+7,850,634
Portion in District of Columbia	3,188,000	3.408	10,865,794	4,424,000	3.715	16,435,550	5,253,000	3.974	20,877,000	4,441,450
Portion outside District of Columbia	20,830,000	2.853	59,429,770	22,107,000	3.046	67,343,816	22,228,000	3.183	70,753,000	3,409,184
(*c*) Operation and protection of purchase-contract space, all outside District of Columbia	1,216,000	1.480	1,799,993	1,306,000	1.529	1,997,000	1,306,000	1.529	1,997,000	----------
(*d*) Moving, alterations, and furniture	----------	----------	1,671,764	----------	----------	1,700,000	----------	----------	1,700,000	----------
(*e*) Temporary space and moving costs incident to new buildings	----------	----------	626,465	----------	----------	1,000,000	----------	----------	1,780,000	+780,000
(*f*) Operation of communication facilities	----------	----------	4,976,885	----------	----------	5,336,000	----------	----------	5,463,000	+127,000
1. Telephone switchboards	----------	----------	3,413,453	----------	----------	3,582,000	----------	----------	3,667,000	+85,000
2. Teletype system	----------	----------	1,563,432	----------	----------	1,754,000	----------	----------	1,796,000	+42,000
Total cost or estimate	----------	----------	170,012,301	----------	----------	[1] 182,815,366	----------	----------	204,619,000	+21,803,634

[1] Includes proposed supplemental of $1,554,000 for annualization of 1962 wage board increases (Sept. 17, 1961–June 30, 1962); $835,000 for pay act costs during fiscal year 1963.

NOTE—Includes proposed appropriation transfers of $3,817,454 from other agencies in fiscal year 1963 for annualized cost of space acquired in 1962 and not in GSA's budget; $6,086,912 from other agencies in fiscal year 1963 for cost of additional space to be acquired in 1963.

GOVERNMENT-OWNED SPACE COSTS

Mr. THOMAS. Let us look at this table on page 21, "Operation and protection."

You have a unit cost in the District of Columbia at $1.34 per square foot. Outside of the District of Columbia it is $1.32 per square foot.

Now, that is for 1962. Follow your table out to 1963 and it has gone down as you point out in both categories. And for 1964 it goes up and the reason for it going up is you are seeking about $3.1 million more than you had last year for this same purpose.

Mr. BOUTIN. That is right, sir.

Mr. THOMAS. Now, translate that into dollars. That is what we were trying to get this morning.

Now let's break this down. Can you break it down into janitorial services, guard service, and then your utility cost?

Mr. BOUTIN. Yes, I can break it down this way, Mr. Chairman: On a per square foot basis for this $1.339 it is 44 cents for cleaning. It is 10.8 cents for protection, and 79 cents for all other costs including utility costs, elevator operation, air-conditioning expense, ground maintenance expense, all of them.

Mr. THOMAS. Air-conditioning expenses, you mean for the current, now?

Mr. BOUTIN. Yes.

Mr. THOMAS. That is for taking care of utilities?

Mr. BOUTIN. That is correct. This is only for the utility costs.

ADDITIONAL UTILITY COSTS

Mr. THOMAS. You show your utility costs going up $1,130,000.

It is our general understanding that about the most stable thing in this country has been our utility costs. Which one of the utilities have gone up the most? Which of them have been stable? Break that down. You mean by utilities: heat, light, and water?

Mr. BOUTIN. Heat, light, water would be the principal ones.

Mr. DALY. Mr. Chairman, this is principally increased consumption rather than increased rate. The increase is due to additional air-conditioning units being placed in buildings, improved lighting and additional electrical equipment.

Mr. THOMAS. What do you use for heat mostly throughout the Government-operated buildings?

Mr. BOUTIN. Coal would be the most commonly used fuel but we are converting an awful lot into natural gas and into oil.

Mr. THOMAS. Do you know what part of this utility cost goes to lighting, as opposed to heat? Which is the most expensive bill, lighting or heat? Can you give us a breakdown on that?

Mr. DALY. We will see if we have it, Mr. Chairman.

Mr. BOUTIN. One of the things added to the electricity cost is air conditioning and ADP. The more equipment, the greater the electrical consumption.

Mr. THOMAS. Then you are saying your electrical bill and perhaps your heat bill accounts for the increase. It is greater consumption rather than increase in price or rate?

Mr. BOUTIN. Not too much in the way of rate increases, Mr. Chairman, that would be correct. Increased consumption and increased number of square feet are primary reasons for increased utility costs. And as we modernize with air conditioning you get a commensurate increase in cost.

Mr. THOMAS. You have a list of locations where you are operating. How many of them have had an increase in the electrical current? Do you have any information along that line?

Mr. BOUTIN. Do you have anything current, Mr. Conrad, with you right now?

Mr. CONRAD. We do review increases in electrical rates and charges. As a matter of fact we have recently been in two cases involving increased electrical rates.

Mr. THOMAS. Where were those two places?

Mr. CONRAD. One was in Idaho and one in Montana.

Mr. THOMAS. Those two you looked into, what did they amount to? Were they entitled to it?

Mr. CONRAD. The one in Idaho, Mr. Chairman, resulted in an avoidance of rate increases in the Government's bill of somewhere in the neighborhood of $91,500 annually.

Mr. THOMAS. In the whole State?

Mr. CONRAD. Yes sir; primarily however, for the military installations and the AEC.

Mr. BOUTIN. And other Government, too.

Mr. CONRAD. Yes sir; and other Government agencies.

Mr. THOMAS. Where does the power come from in Idaho, does that come from that big Snake River project?

Mr. CONRAD. Yes sir; from the Snake River project.

Mr. BOLAND. I would think the Idaho test site of the AEC would use the most.

Mr. CONRAD. Yes sir; it was one of the big ones in the case.

REPLACEMENT OF DEMOLISHED SPACE

Mr. THOMAS. Buildings to be demolished, $1,220,000. How much will you have to spend in rent to take care of that $1,220,000? The Government has already bought and paid for the buildings. What does this cover?

Mr. BOUTIN. All operating costs.

Mr. THOMAS. You are going to have to replace that space with rented buildings. When we take off your back $1,220,000 on one page, how much are you going to add on the next page?

Mr. BOUTIN. I do not believe, Mr. Chairman, that we incurred 1 penny of additional cost for rental for this space being demolished. It was moved from Government-owned to Government-owned space. This is largely the tempoes around the D.C. Stadium.

Mr. DALY. That is correct. It would also take in such structures as the Civil Service Building which is going over to the Smithsonian. Then when building 10–A is finished we will be tearing down tempoes 3, 4, and 5. The Washington Auditorium is another building we occupy now which we will tear down to straighten out E Street.

Mr. THOMAS. What figures are you showing for that increased cost? You are going to have to pay that for space you are moving into.

Where you show a reduction of $1,220,000 to offset that you are going to have to show an additional cost of $10 million or $15 million, are you not?

Mr. DALY. No, sir; the additional cost is where new Government space comes into being and we take it over for operation. The figure of $1,220,000 is——

Mr. THOMAS. How do you arrive at that figure? Explain that figure.

Mr. DALY. Do you mean the $1 million——

Mr. THOMAS. Now, you have 5 million square feet. We will get back to that figure. Where are you showing the cost of that?

Mr. DALY. On page 18, sir.

New buildings to be completed, $6,871,000.

That is the operating cost for new buildings to be completed.

Mr. THOMAS. You have an item here for demolishing. By tearing up these buildings you will save $1,220,000?

Mr. DALY. Yes, sir.

Mr. THOMAS. Do you mean to say you are offsetting this with a cost of $6,871,000?

Mr. DALY. No, sir, not for these old buildings entirely, sir. The new space coming in would be to——

Mr. THOMAS. You give us a very definite minus figure here. Offset that with a plus figure. It is bound to exist some place.

Mr. DALY. I will have to work it up.

Mr. THOMAS. Can you put your finger on it?

Mr. BOUTIN. That figure will be very close to the same, Mr. Chairman. The increase would be just about the same as this because we are operating so many square feet of space.

Mr. THOMAS. And the only difference is in the construction cost, and that will show up somewhere.

Mr. BOUTIN. That will show up in the part of the budget dealing with construction and in the cost of new buildings.

Mr. THOMAS. If you didn't demolish the old buildings you wouldn't have to build the new ones. And you are not building anything in the District of Columbia in the way of an office building for less than $20 a square foot, are you?

Mr. BOUTIN. No, we are not.

Mr. THOMAS. What is the square footage involved in this maintenance and operation cost item of $1,220,000?

Mr. TURPIN. 940,000 square feet.

Mr. BOUTIN. And the rate is about 1.339 overall.

COMPARISON OF GOVERNMENT OWNED AND LEASED SPACE

Mr. THOMAS. Well, refer to page 23 and follow out this breakdown. Put the table on page 22 in the record.

(The table follows:)

Space financed by operating expenses, Public Buildings Service

Year	Average net square feet in millions			
	Total	Government owned	Leased	
			Square feet	Percent of total
1952	85.4	55.2	30.2	35.4
1953	87.7	56.2	31.5	35.9
1954	84.4	56.3	28.1	33.3
1955	80.1	56.4	23.7	29.6
1956	76.7	56.4	20.3	26.5
1957	75.4	54.9	20.5	27.2
1958	76.3	54.9	21.4	28.0
1959	77.1	55.1	22.0	28.5
1960	79.8	57.7	22.1	27.7
1961	84.9	62.9	22.0	25.9
1962	93.2	69.2	24.0	25.8
1963	99.1	72.6	26.5	26.7
1964	105.0	77.5	27.5	26.2
Change, 1952-64 (percent)	+23	+40	−9	

NOTE.—Total space increased by 23 percent; leased space dropped by 9 percent.

Mr. THOMAS. Page 22 shows a good table, on Government-owned-and-leased space and it breaks down the percentage. From 1952 down to 1964 it shows the Government-owned compared with leased square footage. It says, "Total space leased increased by 23 percent." That is that period of 14 years. It shows leased space dropped about 9 percent. Your first table shows it graphically and the next shows it by figures, by year.

In 1952 the total was 85.4 million square feet. That is leased and owned. Government-owned of that 85.4 million was 55.2 million; leased is 30.2 million. That makes 85.4 million. The table shows each year through 1964.

COST CHANGES IN GOVERNMENT-OWNED SPACE

Refer to page 23 and then turn to 18, dealing with the four items of operation and protection of Government-owned space, rental and operation of leased space, the temporary space, and moving costs incident to new building, and operation of communication facilities.

Now, on page 23 is shown square footage of 71,257,000 for 1963. That is operation and protection of Government-owned space, an amount of $13,046,000. That is the first item up here.

Now, it says "Changes."

You add 4,581,000 square feet at an annual cost of $6,871,000, which provides for servicing space in new buildings being completed in 1963 and 1964. You use a round figure of 375,000 square feet in 12 buildings to be completed in 1963 and 4,206,000 average square feet in 66 buildings to be completed in 1964.

You have 955,000 square feet at a cost of $2,043,000, which provides for servicing space in buildings transferred to GSA, including build-

ings 159 and 159–E and 160 and 213 at the Naval Weapons Plant in Washington, D.C.; Anchorage, Alaska, post office and courthouse; and 4100 Forest Park, St. Louis.

You haven't constructed this one at Anchorage?

Mr. BOUTIN. This is being transferred to us. This is not the new building in Alaska.

Mr. THOMAS. What are you going to do with the old one?

Mr. BOUTIN. It is transferred to us and we will occupy it.

Mr. SCHMIDT. That is an existing building where the Post Office has reduced its requirements in the building and have asked that we operate and maintain it from here on.

Mr. THOMAS. What are you going to do with it?

Mr. SCHMIDT. It is fully occupied, sir.

Mr. THOMAS. All they want then is a new one? Are you going to build one? Where are you building one in the next 2 or 3 years in Alaska?

Mr. BOUTIN. Juneau.

Mr. THOMAS. All this amounts to is you are going to transfer it and you are going to continue to maintain and operate it?

Mr. SCHMIDT. We will operate it and maintain it instead of the Post Office Department.

Mr. THOMAS. It is full now?

Mr. SCHMIDT. Yes; it is fully occupied.

Mr. THOMAS. Here is another item: 340,000 square feet at a cost of $510,000 to provide for servicing space in buildings vacated by the Post Office Department and transferred to GSA for general-purpose use progressivly during 1963 and 1964.

What do you mean by "servicing" here?

Mr. BOUTIN. Operating and maintaining, sir. This is located all over the place, Mr. Chairman. These are buildings where the Post Office Department has a leased facility built for their use and we convert the space to general-purpose space and make it a Federal office building and house agencies there instead of leased space. We are taking them out of leased space and putting them in our own property.

Mr. THOMAS. You have a reduction of 940,000 square feet showing a reduction of $1,220,000. That is the tempos around the D.C. Stadium that you are demolishing?

Mr. BOUTIN. That is right.

Mr. THOMAS. That is quite a price to pay for football and baseball.

Mr. BOUTIN. I think our choice here, Mr. Chairman, was to come before the committee and ask for substantial funds to modernize this space if we continued to use it. It was in rough shape.

Mr. THOMAS. Now you go back to $3.1 million which provides for partial improvement in janitoring service. That is what it means, isn't it?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. What was the total figure you gave Mr. Evins for your janitorial service in Government-owned space?

Mr. SCHMIDT. Slightly more than $30 million.

Mr. THOMAS. Does that include leased space?

Mr. SCHMIDT. The Government-owned space.

Mr. THOMAS. What is an approximate figure now for the leased space?

Mr. BOUTIN. That is a difficult one, Mr. Chairman, because most of the leases include servicing, so there isn't a breakdown between rent and services.

Mr. THOMAS. You have many of them there where you pay all the utility costs and maintain it too.

You have a plus item here which provides $1,130,000 for increased electricity consumption. It results from an additional electrical equipment item required by Federal agencies and new air-conditioning equipment.

You stated a while ago that you only had two places where you had a rate increase. The rest of it is increased consumption; is that right?

Mr. BOUTIN. No; two where the rate increase was significant enough for us to enter into the case.

Mr. THOMAS. Contest it?

Mr. BOUTIN. That is right.

Mr. THOMAS. $502,000 provides for increased Pay Act costs due to Federal Salary Reform Act of 1962.

One hundred and ten thousand dollars provides for the annualization of Wage Board rate.

Insert pages 23 and 24 in the record.

(The pages referred to follows:)

OPERATION AND PROTECTION OF GOVERNMENT-OWNED SPACE, $13,046,000

1963 program	Square feet 71,257,000	Annual cost $89,003,000
Provides for servicing space in new buildings being completed in 1963 and 1964; 375,000 average square feet in 12 buildings to be completed in 1963 and 4,206,000 average square feet in 66 buildings to be completed in 1964	+4,581,000	+6,871,000
Provides for servicing space in buildings transferred to GSA, including buildings 159, 159E, 160, and 213 at Naval Weapons Plant, Washington, D.C.; Anchorage, Alaska, Post Office Court; and 4100 Forest Park, St. Louis, Mo.	+955,000	+2,043,000
Provides for servicing space in buildings vacated by the Post Office Department and transferred to GSA for general purpose use progressively during 1963 and 1964	+340,000	+510,000
Reduction due to Government-owned space disposed of due to completion of new buildings	−940,000	−1,220,000
Provides for partial improvement in poor 1963 service level which is substantially below the 1962 level (considered the minimum acceptable level)		+3,100,000
Provides for increased electricity consumption and rate increases resulting from additional electrical equipment required by Federal agencies and from new air-conditioning equipment installed in Government-owned buildings		+1,130,000
Provides for increased paycosts due to the Federal Salary Reform Act of 1962. Includes annualization of increases effected in 1963, and cost of increases to be made during 1964		+502,000
Provides for the annualization of Wage Board rate increases granted between July 1 and Sept. 15, 1962		+110,000
1964 budget	76,193,000	102,049,000

RENTAL, OPERATION AND PROTECTION OF LEASED SPACE, $7,850,634

Reduction due to leased space released due to completion of new buildings	−985,000	−2,935,000
Provides for the annualization cost in 1964 of expansion space provided agencies during 1963 and for which such agencies will transfer appropriated funds to GSA for actual costs during 1963	+1,895,000	+9,158,634
Provides for rental payment cost of the Matomic Bldg., Washington, D.C., other than for public roads space which is to be financed directly by that agency	+40,000	+221,000
Provides for increased rental costs incident to the execution of new leases at current rental rates to succeed leases which by their terms have expired		+1,090,000
Provides for increased electricity consumption and rate increases resulting from additional electrical equipment required by Federal agencies and for additional air-conditioning equipment installed in leased buildings		+230,000
Provides for increased pay costs due to the Federal Salary Reform Act of 1962. Includes annualization of increases effected in 1963 and cost of increases to be made during 1964		+86,000
1964 budget	27,481,000	91,630,000

Mr. THOMAS. We have $9,158,634 to provide for the annualization cost in 1964 of expansion space provided agencies during 1963 and for which such agencies will transfer appropriated funds to GSA for actual cost during 1963. That will be a dangerous item for you. That will be hard to take care of. You have authority in one hand and you turn it loose with the other.

MATOMIC BUILDING COSTS

We have $221,000 increase for 40,000 square feet to provide for rental payment cost for the Matomic Buildings, Washington, D.C., other than for Public Roads space which is to be financed directly by that agency.

In other words, Public Roads picks up the rental on the garage.

Mr. BOUTIN. They reimburse us for their space, Mr. Chairman.

Mr. THOMAS. What is this extra $221,000 for?

Mr. BOUTIN. This is for all other costs.

Mr. DALY. On the Matomic Building, as the chairman will remember, we did not have rent money in the budget. We were going to buy the building and then we had a reversal by the court. The money in here is to provide for rent except for the space occupied by Public Roads.

Mr. THOMAS. What does that building cost you a year to rent? Do you pay utility costs and the maintenance and operation costs?

Mr. SCHMIDT. The total rent is $1,122,100, and the operation and maintenance——

Mr. THOMAS. Wait a minute. You pay the rent at what rate?

Mr. SCHMIDT. $1,122,100.

Mr. THOMAS. Do you have the entire building?

Mr. SCHMIDT. Yes, we have the whole building.

Mr. THOMAS. You pay rent every year to the tune of $1.1 million?

Mr. SCHMIDT. Yes, sir.

Mr. THOMAS. In addition to that do you have to pay for any maintenance and utilities?

Mr. SCHMIDT. $388,800 for servicing of space.

Mr. THOMAS. So it costs the taxpayers how much?

Mr. SCHMIDT. $1,510,900 a year.

Mr. THOMAS. Why should you have to pay $221,000 more this year than you paid last year?

Mr. SCHMIDT. Our budget last year did not include rental and this represents a net adjustment from the reimbursement by Public Roads and the total rental that we have to pay.

Mr. BOUTIN. Actually, this is the difference between what Public Roads pays and the total rental for the property.

INCREASED RENTAL COSTS FOR NEW LEASES

Mr. THOMAS. You have $1,090,000 here for increase in rents where you are going to renew a lease. How do you arrive at this figure?

Provides for increased rental costs incident to the execution of new leases and current rental rates to succeed leases which by their terms have expired.

If it is current rental rates and you draw up a new lease based on that, why do you have to go up $1.1 million for it?

Mr. BOUTIN. This is the best projection we could make, Mr. Chairman, of what it is going to cost us.

Mr. THOMAS. I am just reading this language:

Provide for increased rental cost incident to execution of new leases at current rental rates.

If you are already in the building and you are paying the current rate, why $1.1 million more? Is your language inaccurate or do I read it wrong?

Mr. BOUTIN. I think you are reading it wrong, Mr. Chairman. I think what we are referring to is current market value when we say current rent rates.

Mr. THOMAS. Where are you incurring this $1.1 million additional cost just in the District of Columbia?

Mr. BOUTIN. Nationwide.

Mr. THOMAS. How do you arrive at that figure?

Mr. DALY. These are leases, Mr. Chairman, that have expired, where we could not renew them at the present rate, where we had to pay a higher rate.

Mr. THOMAS. Is this a firm figure or is this an estimate?

Mr. DALY. This is a firm figure based on a number of leases that we know are expiring or have expired.

Mr. THOMAS. Then you have a plus item of $230,000 to provide for increased electricity consumption and rate increases.

That is all very interesting.

Mr. EVINS. You have a tremendous jump from $89 million to $102 million for Government-owned space and another jump from $83 million to $91 million for leased space.

TEMPORARY SPACE AND MOVING COSTS

Mr. THOMAS. Temporary space and moving costs incident to new building shows an increase of $780,000. This provides for additional cost of moving and space adjustments incident to the expanded new construction program. With the completion of new buildings during 1964 providing 6.9 million total net square feet—we have used two or three sets of figures for this item for 1964—the requirement for moving will be $1,291,000. Space adjustments will be $165,000. Temporary rental costs due to demolition of buildings, $324,000. The foregoing totals $1,780,000 during 1964.

When you get through, it is an increase of $780,000 over 1963; is that not right?

Mr. TURPIN. Yes, sir.

BUILDINGS MANAGEMENT FUND

EXPENSES AND EMPLOYMENT

Mr. THOMAS. Where are your green sheets on all this employment? [Reading:]

No personal compensation is paid directly from appropriated funds. Such costs are initially paid from the management fund and are excluded under other services.

Now you get down to the part of the budget that is not too explanatory.

Mr. TURPIN. Page 30 indicates total employment.

Mr. THOMAS. Is this the only place? We will insert page 30 in the record at this point.

(The page referred to follows:)

Statement of buildings management expense—1962, 1963, and 1964

[All in average net square feet]

	1962				1963				1964			
	Total expense	Average square feet	Unit cost	Average employment	Total expense	Average square feet	Unit cost	Average employment	Total expense	Average square feet	Unit cost	Average employment
(1) Buildings management:												
(a) Operation and protection of Government-owned space:												
(1) Cleaning	$32,129,336	98,015,905	$0.328	6,209.6	$30,104,000	107,577,000	$0.280	6,420	$35,643,000	114,013,000	$0.313	7,194
(2) Other operations	51,559,476	103,435,691	.498	4,603.5	53,873,000	112,997,000	.477	4,855	60,689,000	119,433,000	.508	5,351
(3) Protection	10,438,600	98,157,891	.106	1,979.1	11,165,000	107,719,000	.104	1,985	12,335,000	114,153,000	.108	2,085
(4) General expense	5,516,925	103,435,691	.053	702.7	5,794,000	112,997,000	.051	710	6,071,000	119,433,000	.051	710
(5) Buildings management overhead	2,624,216	103,435,691	.025	283.5	3,025,000	112,997,000	.027	300	3,247,000	119,433,000	.027	300
Total	102,268,553	103,435,691	.989	13,778.4	103,961,000	112,997,000	.920	14,270	117,985,000	119,433,000	.988	15,640
Distribution (from operating expenses, Public Buildings Service):												
In District of Columbia	39,622,000	29,477,000	1.344	5,332.4	37,691,000	29,256,000	1.288	5,166	42,906,000	31,220,000	1.374	5,692
Outside District of Columbia	51,019,630	38,554,000	1.323	6,875.0	51,312,000	42,001,000	1.222	7,049	59,143,000	44,973,000	1.315	7,836
All other	11,626,923	35,404,691	.328	1,571.0	14,958,000	41,740,000	.358	2,055	15,936,000	43,240,000	.369	2,112
Total	102,268,553	103,435,691	.989	13,778.4	103,961,000	112,997,000	.920	14,270	117,985,000	119,433,000	.988	15,640
(b) Rental, operation and protection of leased space:												
(1) Cleaning	4,238,043	12,899,761	.329	630.7	4,138,000	12,900,000	.321	626	4,246,000	12,900,000	.329	631
(2) Other operations	8,392,992	24,379,209	.344	504.9	8,693,000	24,379,000	.357	530	8,849,000	24,379,000	.363	535
(3) Maintenance repairs	455,335	11,525,800	.039	46.5	455,000	11,526,000	.039	47	455,000	11,526,000	.039	47
(4) Protection	1,343,525	11,728,663	.115	237.2	1,391,000	11,729,000	.119	237	1,430,000	11,729,000	.122	237
(5) Rent	79,807,510	36,971,159	2.159		93,601,000	40,566,000	2.307		101,806,000	42,476,000	2.397	
(6) General expense	784,341	36,971,159	.021	101.1	828,000	40,566,000	.020	101	848,000	42,476,000	.020	101
(7) Building management overhead	1,040,765	36,971,159	.028	112.5	1,206,000	40,566,000	.030	115	1,293,000	42,476,000	.030	115
Total	96,062,511	36,971,159	2.598	1,632.9	110,312,000	40,566,000	2.719	1,656	118,927,000	42,476,000	2.800	1,666

Statement of buildings management expense—1962, 1963, and 1964—Continued

[All in average net square feet]

	1962				1963				1964			
	Total expense	Average square feet	Unit cost	Average employment	Total expense	Average square feet	Unit cost	Average employment	Total expense	Average square feet	Unit cost	Average employment
(1) Buildings management—Continued												
(b) Rental, etc.—Continued												
Distribution (from operating expenses, Public Buildings Services):												
In District of Columbia	$10,865,794	3,188,000	$3.408	185.0	$16,435,550	4,424,000	$3.715	246	$20,877,000	5,253,000	$3.974	256
Outside District of Columbia	59,429,770	20,830,000	2.853	1,011.0	67,343,816	22,107,000	3.046	1,011	70,753,000	22,228,000	3.183	1,011
All other	25,766,947	12,953,159	1.989	436.9	26,532,634	14,035,000	1.890	399	27,297,000	14,995,000	1.820	399
Total	96,062,511	36,971,159	2.598	1,632.9	110,312,000	40,566,000	2.719	1,656	118,927,000	42,476,000	2.800	1,666
(c) Operation and protection of purchase contract space	1,796,035	1,216,000	1.477	191.4	1,994,000	1,306,000	1.526	200	1,993,000	1,306,000	1.526	200
(2) Moving and space alterations	1,595,387			156.8	1,900,000			196	1,900,000			196
(3) Temporary space and moving costs incident to new buildings	626,465				1,000,000				1,780,000			
(4) Operation of communication facilities	26,747,199			1,182.0	31,925,000			1,432	50,653,000			1,762
(a) Telephone	23,514,303			845.5	25,351,000			1,015	39,219,000			1,249
(b) Rapid written	3,232,896			336.5	6,574,000			417	11,434,000			513
(5) Protection and maintenance, surplus properties	1,412,691			104.6	900,000			104	900,000			104
(6) Maintenance repairs	14,507,596			953.3	18,925,000			973	19,725,000			973
(a) GSA operated	9,330,341			853.0	12,900,000			863	13,400,000			863
(b) Non-GSA operated	5,177,255			100.3	6,025,000			110	6,325,000			110
(7) Security guarding	4,808,513			1,024.9	5,219,000			1,050	5,298,000			1,050
(8) Operation and maintenance of sites held for future construction	98,914				200,000				200,000			

(9) Job order work	34,101,781			566.5	58,700,000			600	53,200,000			600
(a) GSA appropriation	2,546,281			141.0	2,700,000			150	2,700,000			150
(b) Financed by other agencies	31,555,500			425.5	56,000,000			450	50,500,000			450
(10) Other	1,810,940			64.2	1,936,000			64	1,949,000			64
Grand total	285,836,585			19,655.0	336,972,000			20,545	374,510,000			22,255

ESTIMATED DISTRIBUTION OF AVERAGE EMPLOYMENT BY SOURCE OF FINANCING

[All in average net square feet]

	1962				1963				1964			
	Total expense	Average square feet	Unit cost	Average employment	Total expense	Average square feet	Unit cost	Average employment	Total expense	Average square feet	Unit cost	Average employment
Operating expenses, Public Buildings Service				14,697.0				15,337				16,646
Repair and improvement				923.0				943				943
Other GSA appropriations				802.0				802				810
Other agencies				3,233.0				3,463				3,856
Total average employment, BMF				19,655.0				20,545				22,255

BUILDING MANAGEMENT FUND PERSONNEL

Mr. THOMAS. Employment is shown on this sheet numbered 30, and this is the only place where you get it.

Can you supplement this right quick with some salary sheets? Let's see what your employment is in the way of grades and compensation.

You have under this building management fund 19,665 for 1962; 20,545 for 1963. That is an increase roughly of 1,000.

Now, next year you increase it by 1,700. You go from 20,545 to 22,255. Now, it is this buildings management fund that takes care of the vast majority of your expenses, plus the $250 million you are being reimbursed from other agencies.

Can you give us some information on the type and character of your employment?

Mr. TURPIN. On page 36 of the green sheets are the figures in total, and also the average grades.

Mr. THOMAS. That still doesn't get to it by any means.

All this gives is the average salary of ungraded positions: $4,676 for 1963; $4,650 for 1964. This is the first time I have seen anbody going down in pay.

Average GS grade, 4.4:4.4. Average GS salary, $5,287 in 1963; $5,264 in 1964, and next is what I have already read, which is your ungraded positions. Your average GS salary is down from 1963 about $23 per year and your ungraded positions go down $26. I wondered if you wanted to check those figures again.

Mr. BOUTIN. This is accounted for by people coming in at lower grades or at the base of a grade.

Mr. THOMAS. Give us a little peep at what type of people you have in here. You have space management, design and construction. You favor us with each other activity. Somtimes you give us a breakdown, and you show us by grades you have a 16 and a 15, and so forth, and sometimes you don't do it. Tell us something about your big fund here.

Mr. TURPIN. The green sheet is in employment, where it is financed directly from the appropriation. For the building management fund, we do have the green sheets here that appeared in the regular printed budget. I do not believe it was made a part of this justification, but I have them here, which give the detail of the numbers of each grade in the building management fund.

Mr. THOMAS. Is that secret?

Mr. TURPIN. No, sir.

Mr. THOMAS. Then why didn't you have it in all these budget justifications that we have?

Mr. TURPIN. It is in the printed budget and it was left out here solely in the interest of trying to keep the volume down.

Mr. THOMAS. Who is paid from the big fund here?

Mr. TURPIN. All employees in the Building Management Division are paid from this fund.

Mr. THOMAS. What is the total?

Mr. TURPIN. The total, sir——

Mr. THOMAS. We have already read them into the record, haven't we?

Mr. TURPIN. Yes, sir. Total estimated average employment for 1964 is 22,255, of which 16,646 would be financed from the operating expense "Public Buildings Service" appropriation.

Mr. THOMAS. Where are the rest?

Mr. TURPIN. 943 are financed from the "R. & I." appropriation.

Mr. THOMAS. What is R. & I.?

Mr. TURPIN. "Repair and improvement" appropriation.

Mr. THOMAS. Go ahead.

Mr. TURPIN. 810 are financed from other GSA appropriations.

Mr. THOMAS. What are they?

Mr. TURPIN. That would be principally the "Federal supply" appropriation for the FSS warehouses. The "NARS" appropriation for the maintenance of the record centers and the "S. & C.M." appropriation for the maintenance and operation of depots operated by GSA. Then, there are other agencies for which we do reimbursable work, which accounts for an estimated 3,856 of the employees, making a total of 22,255.

CONSTRUCTION SERVICES FINANCING

Mr. THOMAS. What about construction costs? What is that dollar-wise; $252 million?

Mr. TURPIN. Reimbursements to this fund are estimated at $172 million. Salary and expense costs for strictly construction projects would be from our construction services fund.

Mr. THOMAS. Well, you have two funds; do you not?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. What is the other one, now?

Mr. TURPIN. Construction service fund.

Mr. THOMAS. What is your general management fund?

Mr. TURPIN. We have two related to PBS. They are the buildings management fund and the construction services fund.

BUILDINGS MANAGEMENT FUND FINANCING

Mr. THOMAS. Are you losing any money on that work you do for other agencies?

Mr. TURPIN. No, sir; it is based on actual costs. The reimbursement is just what it costs to do the job.

Mr. THOMAS. Did you say 3,600 or 3,800 employees?

Mr. TURPIN. It is estimated for 3,856.

Mr. THOMAS. In round figures, 4,000 out of your 22,200?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. You are supposed to do $22 million worth of work and how much are you doing under your own financing?

Mr. TURPIN. The total, sir, is in round figures, $375 million, of which $204 million would be from the OE, PBS appropriation and the rest from other agencies and other GSA appropriations.

Mr. THOMAS. Then what have you for other agencies and what you are charging yourselves? Your total operations under "Buildings management" for GSA alone is how much?

Mr. TURPIN. $204 million.

Mr. THOMAS. You set it up in your budget as $216 million.

Mr. TURPIN. I was speaking here of the part that goes through the buildings management fund.

Mr. THOMAS. Just say for "Buildings management" alone, $204 million?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Now, for other agencies how much?

Mr. TURPIN. $172 million. That is other agencies.

Mr. THOMAS. How about the $75 million for repair and improvement, doesn't that come through the big fund? What makes up that $172 million? You have "Repair and improvement," $75 million, and you have "Building management" of $204 million.

Mr. TURPIN. What runs through buildings management fund that makes up this $172 million from other agencies and GSA appropriations is mostly "Buildings operation" and "Maintenance and repair" as distinguished from "New construction."

Mr. THOMAS. Is any of your new construction charged against this account?

Mr. TURPIN. No, sir.

Mr. THOMAS. No salaries at all?

Mr. TURPIN. No, sir.

Mr. THOMAS. Go ahead.

Mr. TURPIN. Of the $172 million there is about $75 million that is composed of maintenance, repairs and job order type work.

Mr. THOMAS. Now, you are referring to your modernization program of $75 million. That is all charged to this account, isn't it?

Mr. TURPIN. Only the maintenance repair, which is about $20 million. Just the day-to-day maintenance repairs.

Mr. THOMAS. And the other $55 million, where is that charged?

Mr. TURPIN. It is charged directly against the "R. & I." appropriation. That is where we enter into contracts with private contractors.

Mr. THOMAS. Is there not some way by which you can simplify all this?

Mr. TURPIN. Mr. Chairman, I would say it is our intention to try to present it in as understandable form as we can, but it is pretty complicated by having so many different funds and serving so many agencies.

Mr. THOMAS. We are not fussing with you, we are just asking you if there is any way you can simplify it. There is no argument with anything you have said.

Mr. TURPIN. We will try to do a better job of expressing it.

Mr. THOMAS. Tell us about it now. What can you do?

Mr. TURPIN. On this buildings management fund where we are doing work for practically every other agency in Government——

Mr. THOMAS. Including yourselves.

Mr. TURPIN. Including ourselves. It is difficult to present it in a form which gives the total picture but yet gives all of the individual pieces. It gets pretty voluminous.

Mr. THOMAS. Perhaps our complaint should be—if you want to call it a complaint, and we don't mean it in harsh terms—that you could break it out a little more clearly so we understand what your problem is and understand what you are doing. If you can clearly set it out and break down each component part, it might help a little. You have $204 million under your "Buildings management" and that is the biggest item that you have. That is even larger than your new construction item.

Then you have another item here of about $75 million for your repairs. Do you commingle that day to day, and where you let at least two-thirds of it by contract? Then you have a fourth category where you are doing for other people.

Mr. TURPIN. The buildings operation of $150 million referred to earlier in the justification is all in the buildings management fund. It was $99 million for construction and repair type jobs, of which only a small part is included here. The part that is run through the buildings management fund on a job order basis.

Mr. THOMAS. Where are you charging your people now?

Mr. TURPIN. The money going through this fund is charged to the particular job involved.

FINANCIAL STATUS OF BUILDINGS MANAGEMENT FUND

Mr. THOMAS. You have set up your buildings management fund here. What is your cash position? What is your cash position of your fund now?

Mr. TURPIN. As of December 31, sir, the principal assets included $10 million in cash; $16 million work in process; and accounts receivable totaling $19 million. The principal liabilities included accounts payable, $22 million; deferred credits of $14 million and annual leave liability $9 million.

Mr. THOMAS. What amount of money do you have unobligated as of January 1 or any date you have convenient there?

Mr. TURPIN. Well, sir, we have no new obligation authority in this fund as such. There was an original appropriation of capital to the fund of $3.5 million to provide working cash and that remains intact.

Mr. THOMAS. Did I understand you to say you had $10 million unobligated?

Mr. TURPIN. No, sir. That was just cash, $10 million. At the time this fund was set up there was an appropriation of $3.5 million. There was also authority to transfer to the fund the then existing assets or equipment that was being used in the buildings operation. That totaled $4,384,175, which gives us a total capital of $7,884,175.

BUILDINGS MANAGEMENT FUND EMPLOYMENT

Mr. THOMAS. How many people do you have employed in the District of Columbia in buildings management?

Mr. DALY. We do not have it broken down.

Mr. THOMAS. Do you have the green sheets on it? What is the classification? What is the nature of employment? Are they engineers or architects?

Mr. DALY. Of the 22,255 people, they break down on these general classifications. There are about 63 area managers, 260 building managers, 7,900 cleaners, 6,389 crafts, such as plumbers, carpenters, electricians, et cetera.

Mr. THOMAS. Where are your regional office managers charged?

Mr. BOUTIN. Regional administrators are charged to my budget. They are the only ones outside of the central office and the business service setup.

Mr. THOMAS. Where are the green sheets on the Washington office? How many people do you have charged to buildings management in the District of Columbia?

Mr. DALY. I do not have that figure, sir.

Mr. THOMAS. Give us a horseback opinion. You know how many people you have working for you in the District, do you not?

Mr. DALY. I think we can give you an estimate. We have a total of buildings management people under the fund of 22,255. Mr. Schmidt, what do we have in the regional buildings management, about 8,200?

Mr. SCHMIDT. About 35 percent.

Mr. DALY. About 35 percent of the 22,000 total employees in buildings management would be in the District of Columbia under the regional office here, sir.

Mr. THOMAS. All the people under buildings management are not chargeable to the Washington regional office.

CENTRAL OFFICE BM EMPLOYMENT

How many are chargeable to the central office?

Mr. DALY. Eighty-one, sir.

Mr. THOMAS. Where are the green sheets on those 81 and what do they do?

Mr. DALY. Included in the 81 would be the Assistant Commissioner for Buildings Management, his Deputy, and some of his staff.

Mr. THOMAS. Are they charged to the fund?

Mr. DALY. Yes, sir.

Mr. THOMAS. What is the classification of them?

Mr. DALY. Assistant Commissioner for Buildings Management is GS–16. His Deputy—correction, sir—Assistant Commissioner is a 17; his Deputy is a 16 and he has some Directors of his Divisions of GS–15 rank that are under him, sir.

Mr. THOMAS. How many 15's are there?

Mr. DALY. Four 15's sir.

Mr. THOMAS. Two supergrades, 4 15's, and you have 81 total?

Mr. DALY. Yes, sir.

Mr. THOMAS. What is their function? What does this office do in the District of Columbia?

Mr. DALY. This office is responsible for the buildings management operations all over the country. They are the people that actually develop the programs, work up the standards, make the inspections, and supervise the job.

Mr. THOMAS. You mean they do all of that?

Mr. DALY. Yes, sir.

Mr. THOMAS. It is their job to supervise which programs?

Mr. DALY. That is cleaning, maintenance of the buildings, operation of the elevators, day-to-day repairs of the plumbing, the operation of the concessions, supervision of guards and protection, everything having to do with the maintenance and operation of the building as distinguished from the construction of the building.

BUILDINGS MANAGEMENT REGIONAL EMPLOYMENT

Mr. THOMAS. You have 10 regional offices. You have that exact setup in each of your 10 regional offices, have you not?

Mr. DALY. Yes, sir.

Mr. THOMAS. Detail how many you have in each of your 10 regional offices doing this.

Mr. DALY. It varies as between each regional office, Mr. Chairman, but generally speaking——

Mr. THOMAS. You had broken it down for your overall employment in your 10 regional offices. Now break down this function here.

Mr. DALY. In the typical regional office, this would include the Buildings Management Branch Chief, which in some regional offices is a GS–14, in other regional offices depending on the size, he would be a GS–13. It would also include the buildings managers and in some cases the area managers.

Mr. THOMAS. Let us be a little more specific. Take the Chicago regional office. You have 2,394 positions.

Mr. DALY. Yes, sir.

Mr. THOMAS. How many of them do you have in buildings management?

Mr. DALY. Buildings management, a GS–14 Division Chief, 5 GS–13 buildings managers, 2 GS–13 engineers, 4 GS–12 engineers, 2,382 other classifications, which would include cleaners, crafts, elevator operators, guards, electricians, plumbers, et cetera, sir.

Mr. THOMAS. And all of those are charged to the big buildings management fund?

Mr. DALY. Yes, sir.

Mr. THOMAS. You only have four 12's?

Mr. DALY. Four 12's charged to this fund, sir.

Mr. THOMAS. These people are not all in your building in Chicago, they are scattered all over the five States?

Mr. DALY. Yes, sir, over the region.

Mr. THOMAS. How many do you have in the Chicago office? These top 12 are all there?

Mr. DALY. No. The division chief would be there. That is the 14, and probably 6 engineers would be there, the 5 buildings managers, 1 of them may be, or 2 of them may be directly in Chicago, but the others would probably be in cities outside of Chicago.

FINANCING BUILDINGS MANAGEMENT EMPLOYMENT

Mr. THOMAS. I notice for this office your personnel compensation is $11,644,926. That is for fiscal year 1963. Where does all this money come from?

Mr. DALY. Mr. Turpin, would you want to reply to that question?

Mr. TURPIN. It is all initially financed through the BM fund in what we call the buildings management overhead account—the buildings management office in each region, and here in the central office all comes ultimately out of the OE, PBS appropriation.

Mr. THOMAS. You lost me with that last statement.

Mr. TURPIN. The staff in the central office who have the responsibility for administering the whole buildings management operation

and the staff in each of the 10 regional offices, the regional office itself, is initially financed through the buildings management fund and reimbursed from the OE, PBS appropriation.

Mr. THOMAS. It all comes out of the big fund?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. The big fund is partially implemented by this particular appropriation we are considering now?

Mr. TURPIN. OE, PBS; yes, sir.

Mr. THOMAS. And the other part by transferred funds from the other agencies?

Mr. TURPIN. That is correct, sir.

Mr. THOMAS. Is there any part in here for your modernization program? Do they have anything to do with it?

Mr. TURPIN. On the Post Office modernization program or the GSA?

Mr. THOMAS. All of your programs.

Mr. TURPIN. For what we call the day-to-day maintenance.

Mr. THOMAS. Only that?

Mr. TURPIN. Yes, sir, and that is identified in our budget under the R. & I. appropriation.

Mr. THOMAS. About $20 million?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Where are the employees for the other $55 million? Where are they paid from?

Mr. TURPIN. To the extent it involves force account people, it would be financed through the buildings management fund for the work we do for the Post Office, for example.

Mr. THOMAS. That is included in your $20 million.

Mr. TURPIN. The $20 million is that part that we finance out of R. & I. appropriation. When you talked about modernization, I thought you were talking about the Post Office, the special postal modernization authority they have for which they transfer funds to us to do work in postal space in post offices.

Mr. THOMAS. Yes. In other words, your $250 million from other agencies is made up of four or five parcels—construction of big buildings, modernization by the Post Office Department, et cetera?

Mr. TURPIN. Yes, sir, but the part of the $250 million that you refer to that deals with the new construction is not run through the buildings management fund. It is only where it involves job order work to existing Government buildings, that is run through this fund.

Mr. THOMAS. What does the green sheet show for employment in the District of Columbia?

Mr. TURPIN. That is the green sheet for the detailed employment, total employment, under the buildings management fund.

Mr. THOMAS. How many people are employed under buildings management? That is 19,000 for 1962 and 21,900 for 1964. You have about 750 here that are employed other than under the fund?

Mr. TURPIN. No, sir; the grand total under the fund, average employment for 1964, is 22,255, which includes your GS grades and the ungraded positions.

Mr. THOMAS. Does your sheet tally up here?

Mr. TURPIN. I believe it does, sir.

Mr. THOMAS. Total permanent, 22,615 for 1964, 20,656 for 1963, and 20,129 for 1962.

Mr. TURPIN. That was positions. I believe you will find average employment, the figure I was talking about, 22,255 for 1964.

JUSTIFICATION MATERIAL FOR BUILDINGS MANAGEMENT FUND

Mr. THOMAS. Let us look at the justification for the buildings management fund. Put pages 27 and 28 in the record and the schedule of income from the other agencies on page 29.

(The pages follow:)

BUILDINGS MANAGEMENT FUND

GENERAL STATEMENT

This fund finances, on a reimbursable basis, building management activities consisting of: Management, rental, operation, and protection of Government-owned and leased space in and outside the District of Columbia for housing Federal agencies; recurring repairs to Government-owned space under jurisdiction of General Services Administration; operation of joint-use communication facilities; protection and maintenance of excess and surplus properties; and maintenance and repair of sites or improvements thereon reserved for future construction of Federal buildings, including operation of space occupied by commercial tenants; and other related building services (66 Stat. 594). Retained earnings resulting from operations, after making provision for prior year losses, if any, are paid into the Treasury as miscellaneous receipts.

Operating costs for 1964 are estimated at $374.5 million, a net increase of $37.5 million over 1963, due mainly to net additional space to be serviced and an increase in operation of communication facilities.

1. *Buildings management*—(*a*) *Operation and protection of Government-owned space.*—Provides for operation and protection of 119.4 million average square feet of space in 1964 compared to 113 million average square feet in 1963 and 103.4 million average square feet in 1962. The change from 1963 reflects net additional space to be serviced due to construction of new buildings, buildings being vacated by the Post Office Department, and certain buildings being transferred to GSA for operation and protection.

(*b*) *Rental, operation, and protection of leased space.*—Provides for 42.5 million average square feet in 1964 compared to 40.6 million average square feet in 1963 and 37 million average square feet in 1962, based on currently projected programs of Federal agencies.

(*c*) *Operation and protection of purchase contract space.*—Provides for 1.3 million average square feet in 1964 with no change from 1963.

2. *Moving and space alterations.*—Provides for minimum of moving and related alterations based on experience factors derived from buildings management operations.

3. *Temporary space and moving costs incident to new buildings.*—Provides rents, alterations, etc., incident to setting up temporary quarters for agencies that must be moved to make way for demolition due to construction and moving agencies into temporary space or completed buildings.

4. *Operation of communication facilities.*—Provides for operation of telecommunication services and facilities for use of Federal agencies which will be transferred effective July 1, 1963, to the new Federal Telecommunications Fund established by Public Law 87-847, approved October 23, 1962. A supplemental to provide initial capital for this fund is included in the budget as an item proposed for separate transmittal in the section for transportation and communications service.

5. *Protection and maintenance, surplus properties.*—Provides for protection and maintenance of excess and surplus properties.

6. *Maintenance repairs.*—Provides for day-to-day maintenance to GSA operated buildings, Public Health Service facilities and other Government buildings under jurisdiction of General Services Administration.

7. *Security guarding.*—Provides extra guarding service for other agencies where specifically authorized by law.

8. *Operation and maintenance of sites held for future construction.*—Provides for maintenance and repairs of sites or improvements thereon reserved for future construction of Federal buildings, and operation of space occupied by commercial tenants.

9. *Job order work.*—Provides for special services and improvements to buildings for General Services Administration and other agencies, including work for the Post Office Department in connection with its modernization program.

10. *Other.*—Provides for program supervision of repair and improvement operations as distinguished from architectural and design activities initially financed from the Construction services fund, utility services furnished in the District of Columbia to buildings operated by other agencies and utilities to concessionaires. (From the Budget for 1964.)

Supplementary analysis of income for 1962 by source

GSA appropriations:	
Operating expenses, PBS	$168,535,079
Repair and Improvement	16,217,367
Strategic and critical materials	3,831,491
Expenses, supply distribution	3,277,470
Operating expenses, UDS	1,600,540
Operating expenses, NARS	650,657
General supply fund	376,717
Administrative operations fund	114,214
Additional court facilities	182,521
Consolidated working fund	339,837
Minor amounts from other funds	222,098
GSA transfer accounts from other agencies	14,899
Income from GSA appropriations	195,362,890
Income from other agencies:	
Executive Office of the President	6,364,499
Judiciary	350,618
Legislative	708,572
Department of Agriculture	5,365,252
Department of Commerce	2,558,605
Department of Defense	14,163,142
Department of Health, Education, and Welfare	16,757,403
Department of the Interior	2,490,661
Department of Justice	922,440
Department of Labor	881,227
Post Office Department	16,564,420
Department of State	273,684
Department of the Treasury	4,674,966
Independent agencies and others:	
Agency for International Development	1,182,800
Atomic Energy Commission	1,611,155
Civil Defense, Department of Defense	375,797
Civil Service Commission	387,613
District of Columbia	427,793
Federal Aviation Agency	2,237,262
Housing and Home Finance Agency	5,812,384
National Aeronautics and Space Administration	869,665
National Labor Relations Board	317,695
National Science Foundation	192,538
Railroad Retirement Board	855,410
Securities and Exchange Commission	186,318
Selective Service System	115,764
Small Business Administration	482,669
Smithsonian Institution	127,244
U.S. Information Agency	374,250
Veterans' Administration	1,268,266

Supplemental analysis of income for 1962 by source—Continued

Income from other agencies:—Continued	
Minor amounts from other agencies and sources	$2,033,304
Income from other agencies	90,933,416
Subtotal	286,296,306
Other income	1,275,060
Total buildings management fund revenue and other receipts, 1962	287,571,366

INCOME FROM OTHER AGENCIES

Mr. THOMAS. Who is your biggest customer?

Mr. DALY. Department of HEW, now.

Mr. THOMAS. Executive Office of the President, $6.3 million; Department of Agriculture, $5.3 million; Department of Defense, $14.1 million; HEW, $16.7 million; Justice, $2.49 million; Post Office Department, $16.5 million; Treasury, $4.6 million; Housing and Home Finance Agency, $5.8 million; Federal Aviation Agency, $2.2 million; Veterans' Administration, $1,268,000. They have a large construction unit. What are they doing spending money with you? Your total income from other agencies, $286,296,306. I used the figure of $252 million. I see our figures do not exactly gibe.

Mr. TURPIN. Sir, this was the actual for 1962 and the total there from other agencies in 1962 was about $90 million.

Mr. THOMAS. Gentlemen, turn to page 30 and look this over. You will get a bird's-eye view of what this catchall fund does. They do not break it down other than this table.

Moving and space alteration: You break it down to average employment, 156 people in 1962, in 1963, it is 196; 1964, 196, and your dollars, $1,595,000 in 1962, 1963, $1.9 million, protection and maintenance, surplus properties, $900,000.

Your guard duty costs more than you sell it for?

Mr. BOUTIN. No, sir.

Mr. THOMAS. Are we getting more than 6 percent now?

Mr. BOUTIN. On real property we are doing substantially better.

Mr. THOMAS. We will go into that after a while.

OPERATION OF COMMUNICATION FACILITIES

Operation of your communications facilities, telephone and rapid written, $26,747,199. That is the dollar cost for 1962. That goes up to in round figures to $32 million in 1963 and for 1964 it is $50,653,000. Where is that money we were going to save?

Mr. BOUTIN. This is based on use, Mr. Chairman, and we are getting substantial additional use, particularly in telegraph work.

Mr. THOMAS. We have 1,762 people involved in it for 1964 and in 1963 you had 1,432. In 1962 you had 1,182.

Mr. BOUTIN. We have taken over a substantial number of switchboards from other agencies, too, in this consolidation program.

Mr. THOMAS. Tell us more about this now. What about your operation of your communications facilities? Give us some detail. I do not find very many details in your justifications. Give us some now.

Mr. CONRAD. In connection with the 1964 projection, Mr. Chairman, the total dollar volume you see projected there together with the total number of personnel which would be the operators required to operate the system——

Mr. THOMAS. What is the system? You have telephone and rapid written. What is that?

Mr. CONRAD. Rapid written is the teletype system.

Mr. THOMAS. You have long lines that carry the spoken word and you have your own version of Western Union?

Mr. CONRAD. Our own leased teletype system; yes, sir. On the teletype system we are expecting to go to 75 million words in fiscal year 1963 and to a capacity of 150 million words in 1964. For this increased volume we need additional teletype operators, and is the reason for the increase reflected in the number of teletype operators.

Mr. THOMAS. You had better get first things first; what is the purpose of this system? How does it operate? Why do you need 1,700 employees? What do they do? Where are they located?

Mr. CONRAD. There are 1,762 man-years, sir, of which 513 apply to teletype operators and the other 1,249 to switchboard operators, who will be located at the Government switchboards in different cities throughout the country where our leased telephone system serves the Federal agencies. The teletype operators are located in each one of the teletype stations and at our teletype centers scattered around the country.

Mr. THOMAS. These are all Indians? How many chiefs do you have?

Mr. CONRAD. None. Of the employees listed in 1964, sir, the average grade is 4.3.

Mr. THOMAS. How many of them do you have located in the central office here?

Mr. CONRAD. There are none in the central office, sir.

Mr. THOMAS. No managers?

Mr. CONRAD. No.

Mr. THOMAS. All in the regional offices?

Mr. CONRAD. Yes, sir.

TELECOMMUNICATIONS SYSTEM OPERATION

Mr. THOMAS. How long has this system been in operation?

Mr. CONRAD. The Government has had a teletype system since about 1945.

Mr. THOMAS. Does this serve anything except the civilian agencies?

Mr. CONRAD. This serves all the civilian agencies of the Government and it also has a compatibility with the military networks.

Mr. THOMAS. What do you mean a compatibility?

Mr. CONRAD. The ability to interconnect and exchange traffic. This is administrative traffic. I would like to qualify it to that degree.

Mr. THOMAS. This cost is going up every year. Why does it go up?

Mr. CONRAD. By virtue of the increased requirement of the Government for communications services.

Mr. THOMAS. Is this service to other agencies on a reimbursable basis?

Mr. CONRAD. Yes, sir.

Mr. THOMAS. What do you charge them?

Mr. CONRAD. Our rate per word on the teletype, or on the rapid written word, at the moment is 15 mills, which is about one-third of the commercial rate.

TELECOMMUNICATIONS CUSTOMER AGENCIES

Mr. THOMAS. Who is your biggest customer now?

Mr. CONRAD. The four biggest customers of the teletype system right now are Treasury, Justice, Interior, and GSA in that order.

Mr. THOMAS. How much of this $50 million do you use?

Mr. CONRAD. The $50 million that is reflected there is the total communications cost for the communications operation that will be financed in the building management fund, and you will see $39 million there is for the voice program and $11 million for the other programs.

Mr. THOMAS. At this point give us a list of your customers, how you make up this total figure of $50 million.

What will be the source of your fund? What part is the GSA actually charging to itself for communications and where does the remainder of the $50 million come from?

Mr. CONRAD. All agencies, to a varying degree, are our customers. General Service charges itself the same rate that it charges all of the other using agencies, Mr. Chairman.

Mr. THOMAS. What part of that $50 million is chargeable to GSA?

Mr. CONRAD. About $7.5 million of the $50 million is chargeable to GSA. This includes $2 million for actual communications services, and $5.5 million provided by "Operating expenses," PGS appropriation for operators' salaries.

REIMBURSEMENT TO WESTERN UNION

Mr. THOMAS. And in addition to that do you have any bill from Western Union?

Mr. CONRAD. We pay Western Union for the facilities which we lease from it.

Mr. THOMAS. These are all Western Union lines you are using, are they not?

Mr. CONRAD. The entire picture that you see represented here would be Western Union lines that you see represented in the rapid written portion.

Mr. THOMAS. You do not pay Western Union any bill other than rental of its lines. You do not pay them for sending messages, do you?

Mr. CONRAD. No, sir.

Mr. THOMAS. What about A.T. & T.?

Mr. CONRAD. We lease their circuitry as well in the same way that we do Western Union.

Mr. THOMAS. Out of your $50 million GSA spends $7.5 million of it. Who is your next big user?

Mr. CONRAD. In 1964 the big customer for combined communication services would be NASA based on a recent traffic survey. They depend upon us, to a great extent for communications.

Mr. THOMAS. Can you read into the record the amounts for each?

Mr. CONRAD. I could supply that for the record, Mr. Chairman, if I may.

Mr. THOMAS. At this point insert that in the record.

(The information requested follows:)

Estimated distribution of fiscal 1964 income by agencies, communications operations

[In thousands]

NASA	$6,108	SBA	$789
Defense	5,697	Labor	647
Treasury	5,434	CSC	630
HEW	4,677	NLRB	571
Agriculture	3,197	AEC	454
Interior	2,393	State	399
Commerce	2,050	U.S. courts	321
GSA	2,021	All other	1,969
VA	1,847	GSA (operators' salaries paid from "Operating expenses," PBS)	5,463
PO	1,615		
HHFA	1,533		
FAA	1,422		
Justice	1,416	Total	50,653

Mr. THOMAS. Who is your next largest?

Mr. CONRAD. On the voice program we have NASA, DHEW, FAA, and Commerce. On the rapid written portion of the program the biggest single customer, as I indicated, is Treasury, with GSA the fourth largest.

Mr. THOMAS. They make their own justification for their funds and then transfer it to you?

Mr. CONRAD. They pay the bill that is submitted to them by GSA for this service.

MESSAGE TRANSMITTAL

Mr. THOMAS. You might give us a little insight into the mechanics of the system. How does it work? Suppose HEW wants to send a teletype message. How do they do it? Do they send it from their own installation and it is automatically billed by you.

Mr. CONRAD. This is true; yes, sir.

Mr. THOMAS. Does it require any special installation or equipment?

Mr. CONRAD. Yes, sir.

Mr. THOMAS. What about that?

Mr. BOUTIN. Yes, sir; Mr. Chairman. It requires the installation of equipment at the office where it is going to be sent.

INITIAL FUNDING OF SYSTEM

Mr. THOMAS. What amount of money did we appropriate for this purpose 2 years ago to set up the equipment? You really got started good then.

Mr. BOUTIN. That was in the voice program, Mr. Chairman.

Mr. THOMAS. What was the amount of that money, do you remember?

Mr. BOUTIN. How much did we get 2 years ago?

Mr. CONRAD. $850,000.

Mr. BOUTIN. How much of this was for equipment?

Mr. CONRAD. $32,000 for office equipment.

SAVINGS DUE TO TELECOMMUNICATIONS SYSTEM

Mr. THOMAS. How is this working out, Mr. Administrator? Have you been able to save anything?

Mr. BOUTIN. In the rapid written we save about one-third by consolidating within one agency rather than have each do its own. In the voice communications, the new program we just started, we save about 25 percent. That is our immediate goal and we are going to better that as we go along.

Mr. THOMAS. You have a cost here of $50 million. Without this program what would that $50 million be? Would be be $55 million, or what?

Mr. CONRAD. About $65 million.

Mr. BOUTIN. $65 million very easily, probably a little better than that.

Mr. OSTERTAG. Will the chairman yield there?

Mr. THOMAS. Surely.

VOLUME OF BUSINESS ESTIMATES

Mr. OSTERTAG. Do you have any prior estimates of what the several agencies are going to require for this next year?

Mr. BOUTIN. We have estimates on what they are going to require based on current usage and their own forecasts of what they are going to require on the rapid written, yes. On the Voice we are just beginning so all we can use is what their telephone bill actually was last year.

Mr. OSTERTAG. Out of this $50 million which you are budgeting, how much of that will be reimbursed to GSA?

Mr. CONRAD. The entire $50 million.

Mr. BOUTIN. Part of which we will reimburse to ourselves from other funds.

Mr. OSTERTAG. Where does that money go?

Does it revert to the Treasury?

Mr. BOUTIN. This is a break-even proposition. We are reimbursed to the exact extent of expenditures; is that correct?

Mr. CONRAD. This is correct.

Mr. OSTERTAG. In other words, you are not actually budgeting this. If you are reimbursed and you have it in your funds you have it twice.

Mr. BOUTIN. These are the funds that go through the BM fund itself. This is the funding vehicle for it.

Mr. TURPIN. This is not a request for new obligation authority. It is only an estimate of the volume of business.

Mr. OSTERTAG. That is the point.

Mr. JONAS. Would you yield?

Mr. OSTERTAG. Yes.

NATURE OF SAVINGS DUE TO TELECOMMUNICATIONS SYSTEM

Mr. JONAS. I would like to read the following response by Mr. Boutin last year to Mr. Thomas' question apropos this increase in cost as a result of increased usage. Mr. Thomas said:

I cannot see where the big savings will come from. The long-lines people now have the business. Will this entail more talking on the part of the Government? What is the other side of the coin?

Mr. BOUTIN. I do not think it will result in a curtailment of the use of the service, but if we have the lines additional use will not entail additional cost anywhere and proper use of telecommunications might possibly result in reduced paperwork.

Mr. BOUTIN. That is correct. I still stand by that statement, Congressman.

Mr. JONAS. You mean you stand by the statement "additional use will not entail additional cost anywhere?

Mr. BOUTIN. We have to look at this from a Government-wide point of view. By bringing these communications together in one ball of wax, we can reduce the cost because we can secure lines cheaper through Telpak on voice communication.

Mr. JONAS. You told us last year it would save $15 million a year, but that is not reflected in this increase in the budget. You said the increase is caused by increased use but you told us last year that increased use would not increase the cost.

Mr. BOUTIN. Increased use won't increase the cost within the limitations of the equipment itself. If you have to add equipment, you are going to increase costs, but yet your unit cost, which is the important thing here, consistently goes down.

Mr. JONAS. It was not quite accurate, then, to tell us last year additional use would not increase the cost.

Mr. BOUTIN. Within the equipment available that statement is true.

Mr. TURPIN. Congressman, a good bit of this $50 million estimated volume of business in 1964 is the voice part of the communication.

Mr. JONAS. $39 million of it.

Mr. TURPIN. Yes, sir; and a lot of that estimated increase is from incorporating into the GSA communications system elements that are now being operated by other agencies.

Mr. JONAS. But you told us last year that was your objective, to bring them all within the scope of this system, and that you were going to save $15 million a year.

Mr. BOUTIN. I think in the long pull we are going to save substantially more than that a year, Congressman, but you would have to sit here with the budget of every single agency in order to make an accurate comparison of what the overall cost to the Government is.

Mr. EVINS. This is what I was interested in. I daresay you cannot show a single agency of Government has reduced their overall communication cost by reason of using your services. They are still using the other services also. I daresay they have not cut down a single person. Can you show reduction in cost to other agencies and a reduction in personnel in other agencies by reason of this service?

Mr. BOUTIN. Yes, we can. We can show, for instance, on the number of switchboards we have already consolidated that we have cut down employment 218 positions.

Mr. EVINS. In other agencies.

USE OF FACILITIES BY AGENCIES

Mr. THOMAS. What part of the civilian agencies' voice business, long-distance calls, is included in this cost of $39 million? Is it mandatory that the civilian agencies use this service?

Mr. BOUTIN. Not mandatory to the point where somebody is going to get fired if they do not, but the Bureau of the Budget has directed

that they shall use it and we have only been in operation now, I would like to point out, 3 days. We only cut over this system the 15th of February, so it is pretty hard to forecast in absolute terms.

Mr. THOMAS. Let's go back to rapid written, teletype, $11.4 million for 1964. Last year it was $6.6 million. Is it mandatory that the other civilian agencies use this service? What part of them use it; what part of them still rely on Western Union?

Mr. BOUTIN. I would say the vast bulk of it. Bob, can you give accurate percentages here? It is so cheap they just do use it, Mr. Chairman. It is very well accepted.

Mr. CONRAD. A great many agencies do use the GSA teletype system. However, many agencies, such as the Veterans' Administration, the Bureau of Old Age and Survivors' Insurance, have their own teletype network which they also lease from Western Union or from A. T. & T. and it is these networks that eventually will be unified into one system, and this is the overall mission which we have.

(Discussion off the record.)

BM COMMUNICATIONS SERVICE

Mr. THOMAS. A big part of your $374 million expense in the BM fund is for your buildings management. This is not all of your property management feature by any means; $50 million is for communications. It is about 15 percent.

Mr. BOUTIN. About 13 percent, or one-eighth.

PERCENT OF TOTAL TRAFFIC HANDLED

Mr. CONRAD. We do not make any claim that we handle all of the teletype messages for the civilian agencies. Our figures show we handle about 23 percent.

Mr. THOMAS. You are beginning to tell us something we have been asking you about for 10 or 15 minutes. Nobody said you did. We were just trying to get that information. Give it to us now. You handle about 23 percent of the teletype messages of the civilian agencies of Government? Is that it?

Mr. CONRAD. Of the teletype; yes, sir.

Mr. THOMAS. What about the long lines, the voice?

Mr. CONRAD. On the voice program, I do not have an exact figure on how much of the voice program we do handle, but I know we will service all of the civilian agencies of the Government and the military in 300 locations. The total communications bill for the civilian agencies is about $100 million. This gives you an indication, this $50 million, of how much we serve.

Mr. JONAS. May I ask a question?

Mr. THOMAS. Yes, sir.

Mr. JONAS. Is the basis of the charge minutes used, seconds, or words? It would be words on teletype, I guess, and on voice is it minutes?

BASIS FOR DETERMINING SAVINGS

Mr. JONAS. How can you ever prove that there will not be more talking than before, when the facts show that the costs go up every year?

Mr. BOUTIN. I do not think we can prove that, Congressman, at all. I think all we can prove is for the number of minutes talked that we save a substantial amount of money versus commercial rates. I think that is about all we can prove.

Mr. EVINS. What I would be interested in is your showing the amount of reduction in the other services. If you could do that, you would be showing something.

Mr. BOUTIN. The one problem is we do not see those other budgets so we do not know.

Mr. EVINS. The agencies that do business with you can tell you how much they have cut down their other services, if they have, which I doubt.

Mr. JONAS. Just one final question, Mr. Chairman. I would like to emphasize that point.

Mr. THOMAS. Mr. Jonas.

Mr. JONAS. The fact we operate the system, there is no way to tell whether that operates to encourage more use of it or not and, if it does, that would reduce any prospective savings, would it not? If it stimulates use and causes more talking and communication, the total cost would go up. We have been a little skeptical in here about that very thing, or at least I have. I know when you think you are getting something for nothing there is a temptation to use it, or if it is at a reduced rate there is a temptation to use it. If you have to pay for these things out of a budget and justify them, one agency after another, you can keep a little more control over the talking that goes on than you can if you have a wide-open service, can you not?

METHOD OF BILLING CUSTOMERS

Mr. CONRAD. Congressman, I believe I should clarify one point if I may, and that is, when you asked how the billing was rendered, when I said call minutes, I was referring to the billing made by GSA to the participating agency; the billing by the telephone carrier to GSA is based on the number of circuit miles, and we could talk on this particular circuitry 24 hours a day without increasing the cost to the Government by virtue of the use of that circuit.

Mr. JONAS. That makes a considerable difference.

Mr. CONRAD. It makes a great deal of difference. I am sorry I misunderstood your earlier question.

Mr. THOMAS. What did you say, about the billing to the agency, to Mr. Jonas?

Mr. CONRAD. On the billing to the agencies, GSA bills the agencies on the number of call minutes that the agency uses during a billing period.

Mr. JONAS. You have been in it long enough to see whether those charges are going up?

Mr. BOUTIN. No, we have not. We have been in it 3 days. We have not got a good fix on it.

BUILDINGS MANAGEMENT FUND EMPLOYMENT

Mr. THOMAS. You have personnel compensation, departmental and field, on page 36 of the green sheets. I do not see any exact breakdown. That goes back to the big fund. How many have we in the

District of Columbia, in the Central Office? Eighty-one in Building Management?

Mr. BOUTIN. I now have that exact figure. We have 8,200 in the District of Columbia and 11,679 outside the District of Columbia, as of December 31, 1962.

Mr. THOMAS. I really meant the departmental office. I beg your pardon. Is that figure of 81 correct for departmental?

Mr. DALY. Yes, sir; that is correct.

Mr. THOMAS. But in the District you have a total of how many?

Mr. BOUTIN. 8,200.

OTHER OBJECTS COSTS IN BUILDINGS MANAGEMENT FUND

Mr. THOMAS. We have personal benefits of how much?

Mr. TURPIN. Mr. Chairman, on page 36, for the buildings management fund as a whole, we have the object-class breakdown. That is in the buildings management fund in total. For the personnel benefits, as indicated, there are $7,747,000 for 1963, and $8,421,000 for 1964.

Mr. THOMAS. I have it circled here. What is your travel bill? You have $55,000?

Mr. TURPIN. Yes, sir, $55,000; and for the motor pool, travel by motor vehicles, $155,000.

Mr. THOMAS. You have rent, communications, and utilities, $143,395,000 for 1963; and it goes up to $169,251,000 for 1964. Where is that $50 million?

Mr. TURPIN. What $50 million, sir?

Mr. THOMAS. For communications. Where does that fit into this figure?

Mr. TURPIN. That $50 million, so far as this table is concerned, would be broken between the costs for personal services that are involved, switchboard operators and teletype operators, and the rental of the lines would be under 23.

RENT, COMMUNICATIONS, AND UTILITIES—BUILDINGS MANAGEMENT FUND

Mr. THOMAS. Let us break object class 23 down. You have three different classifications. Utilities, which I presume is heat, light, and water; you have communications, long lines, and teletype; and you have rent. You lump them all in here for $169 million, which is about a $26 million increase over 1963. What part of that is paid by GSA, and what part is paid by other agencies?

Mr. TURPIN. Mr. Chairman, we do not have available here a breakdown of that. We can supply that for the record.

Mr. THOMAS. What part of your communications, of this figure of $169,250,000, is chargeable to GSA?

Mr. TURPIN. Mr. Conrad estimated a while ago that would be about $7.5 million.

Mr. THOMAS. Who spends that other $162 million?

Mr. TURPIN. I thought you said for communications.

Mr. THOMAS. What part of that $169 million is for communications? You have lumped three big ones in these: rent, communications, and utilities. The utility item is a tremendous one.

Mr. TURPIN. Yes; and the rent item is a tremendous one, too. For example, the rent alone would be $101,806,000 of the $169,251,000. The other——

Mr. THOMAS. That is in Government-leased space, then.

Mr. TURPIN. That is leased space; yes, sir. The other $68 million would be for utilities, and what is paid to the communications companies for the rental of the lines.

Mr. THOMAS. What does GSA pay for the utilities—for its own account, not for everybody in the fund?

Mr. TURPIN. The breakdown on that basis, Mr. Chairman, is what we do not have available at this time. We can supply it, but we do not have it available with us.

(The information supplied follows:)

Breakdown of object class 23 for buildings management fund, fiscal year 1964

	Total	OE, PBS	Reimbursable
Rent, communications, and utilities:			
Rent, including services financed by lessor	$101,806,000	$78,991,000	$22,815,000
Utilities, electricity, water, gas, etc	27,006,000	21,632,000	5,374,000
Communications	40,439,000	227,000	40,212,000
Total	169,251,000	100,850,000	68,401,000

PRINTING AND REPRODUCTION—BM FUND

Mr. THOMAS. What about your printing and reproduction item? Where is that? It is $250,000 this year against $250,000 last year and $231,000 in 1962. You do not do any printing and reproduction for anybody except yourself, do you?

Mr. TURPIN. This would be any printing requirements involved in the whole buildings operation, which includes some printing in connection with the specifications and plans for some of the repair and renovation work financed through the fund.

Mr. BOUTIN. Booklets and pamphlets of all types.

Mr. THOMAS. Can you give us any concrete information? You ask for $250,000 here. Suppose we just cut this item out. You do not know anything about it, and we do not.

Mr. BOUTIN. What type of items would this include?

Mr. SCHMIDT. This would include all of our manuals and printed materials on standards, job order work forms that are used, time cards, and all that sort of thing used in the whole building operation throughout the country.

Mr. THOMAS. Have you examples of your printing and reproduction items here? Have you any samples of your booklets or instructions or whatever it is you print? How do you arrive at this round figure? A round figure always excites curiosity. It is the same in 1964 as this year. What did you spend in 1962 for this item? Do you have that figure?

Mr. SCHMIDT. $231,000.

Mr. THOMAS. I want you to look at something besides this green sheet. Have you any secret information over there? What did you spend?

Mr. TURPIN. Mr. Chairman, we do accumulate in our accounting records summary information by object class, but all of our accounting reports that are used for management control purposes in the buildings operations are by the unit cost of the different elements of work performed in the fund.

Mr. THOMAS. Can you give us any sort of breakdown? How much do you spend for printing for the use and benefit of the agency itself, GSA, and what do you spend for the use and benefit of the other agencies that you serve?

Mr. TURPIN. We can develop that figure and submit it for the record, sir.

(The information supplied follows:)

Breakdown of object class 24, buildings management fund, fiscal year 1964

	Total	OE, PBS	Reimbursable
Printing and reproduction:			
Printing, general, handbooks, manuals, forms, etc.	$185,000	$160,000	$25,000
Drawings and specifications, bidding documents, etc.	65,000	6,000	59,000
Total	250,000	166,000	84,000

OTHER SERVICES—BM FUND

Mr. THOMAS. Item 25 is a big item, "Other services," $39 million in 1962, $65,600,000 in 1963, and $66,341,000 in 1964. What is that?

Mr. TURPIN. That is contractual services in connection with the maintenance done by other than our force account; also for any repairs to equipment and items of that nature, any contractual services done by outside suppliers.

Mr. THOMAS. Architect fees?

Mr. TURPIN. No, sir. Contractual services under the buildings management fund, in connection with the buildings operation.

Mr. THOMAS. That comes under your construction program, then?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. You see what we were driving at this morning when we said we gave you A-plus, but. We still give you that A-plus, provided you really get in here next year and fix this up right. Do you think you can do it so it can be understood? If you can understand it, we will be right behind you. You do not have all the information we want so will you have it next year? Is that a deal?

Mr. TURPIN. Yes, sir. It is our desire to try and present it the way the committee wishes it.

Mr. THOMAS. We are not fussing at you. Do not get in that position. Do not take the defensive. You are doing all right.

SPACE MANAGEMENT

Let's take a look at space management. Insert pages 37, 38, and 39 in the record.

(The pages follow:)

Space management

	Amount	Average employment		
		Department	Field	Total
1963	$4,503,000	77.5	372.5	450
Change	+400,000		+12.0	+12
1964	4,903,000	77.5	384.5	462

HIGHLIGHT

"This activity provides for (a) acquisition of real property by lease, purchase, exchange, or donation, including appraisal and management of building sites pending construction, (b) assignment and reassignment of Government-owned and leased space, and (c) review, analysis, and determination of Federal space requirements and the development of programs and projects for fulfillment." (From the budget for 1964.)

Justification of the activity is presented under 3 subactivities summarized below:

Summary of performance cost

	1962	1963	1964
a. Acquisition	$2,050,612	$2,303,800	$2,489,400
b. Assignment and utilization	1,416,259	1,720,200	1,915,100
c. Space requirements	311,751	479,000	498,500
Total cost or estimate	3,778,622	4,503,000	4,903,000

JUSTIFICATION

GSA's responsibilities in the acquisition and utilization of federally owned, and leased office space in the United States were expanded and given greater emphasis by Executive Order 11035, dated July 9, 1962. Additional employment and funding are essential to fully carry out the objectives of this order and at the same time continue to provide the space needs of a growing Federal population.

a. Acquisition.—Under this subactivity real property or interest therein is acquired by lease, exchange, purchase, or donation; building sites held by GSA are put to productive uses pending construction of Federal facilities; and an appraisal service is provided for all PBS programs and, upon request, for other agencies.

Total cost or estimate:

1962	$2,050,612
1963	2,303,800
1964	2,489,400

The total increase of $185,600 in 1964 over 1963 consists of $85,600 due to pay costs authorized by the Federal Salary Reform Act of 1962, and $100,000 for in-lease contract appraisals.

Acquisition workload

	1962	1963	1964
Number of leases in effect	6,778	6,950	7,800
Total square feet of space under lease (million)	42.9	44.8	48.3
Number of parcels acquired for new construction	127	200	300
Appraisals completed:			
Staff	1,023	1,233	1,492
Contract	336	411	497
Total appraisals	1,359	1,644	1,989

During fiscal year 1963 the number of urban centers where GSA will lease space will be increased from 128 to 282. This will result in the transfer to GSA in 1964 of approximately 850 leases involving approximately 2.1 million square feet of space currently administered by the Departments of Defense, Agriculture, and Commerce. GSA will become the sole leasing agency in these areas, thereby eliminating any competition between Government agencies for available space which will ultimately result in savings made possible through lease consolidations, conversions to longer term leases, and uniform assignment practices.

In-lease activity has increased from 5,198 leases in 1957 to 6,778 in 1962, an increase of 30.4 percent. The appraisal activity associated with the in-lease program is generally handled by staff appraisers; however, employment in this area has not been increased commensurate with the increased appraisal workload. As a result, it is estimated that during 1964 it will be necessary to contract for 86 of the 345 increase in appraisals to be performed over the 1963 level. An increase of $100,000 is included in the estimate for this purpose.

b. *Assignment and utilization.*—Under this subactivity, agency requests for space are evaluated and determination made with respect to source of available space. Specifications are prepared detailing space requirements for acquisition by lease or by construction. Functional space studies are conducted and partition and furniture layouts prepared for the assignment of space in all buildings in the Federal construction program. Existing Government-owned and leased space is inspected periodically to determine use being made of the space to insure economic utilization by occupying agencies.

Total cost of or estimate:

1962	$1,416,259
1963	1,720,200
1964	1,915,100

The total increase of $194,900 in 1964 over 1963 consists of $77,900 due to pay costs authorized by the Federal Salary Reform Act of 1962; $104,000 for 12 additional field positions; and $13,000 for travel.

Assignment and utilization workload

	1962	1963	1964
Square feet under assignment responsibility (million)	146.36	153.39	163.96
Employees housed	558,835	583,200	606,400
Assignment actions completed	7,630	8,100	9,200

The amount of space which GSA will manage under its assignment and utilization responsibility will increase 10.57 million square feet in 1964 over 1963, brought about by the completion of new Federal buildings now under construction, extending the number of urban centers for which GSA will have space management responsibility, and the transfer of certain property to GSA.

In order to accomplish improved space utilization in compliance with Executive Order 11035, an accelerated inspection program is being undertaken which will require additional employment and travel funds in 1964. Through better utilization of Government-owned and leased office space, a reduction of space occupancy per person from 153 square feet in 1962 to below 150 square feet by the end of 1964 is proposed. Accomplishment of this objective will produce substantial savings to the Government by obviating the need for an equivalent amount of additional space.

c. *Space requirements.*—Under this subactivity, long-range Federal space needs are identified and plans for the fulfillment of such needs are developed. From community surveys and other data obtained, nationwide programs of improvements, extensions and conversions, new construction, leasing, and disposals are developed with due regard to priority of need. Specific public building projects are identified and prospectuses prepared for consideration and approval by the Public Works Committees of the House and Senate pursuant to the Public Buildings Act of 1959. In addition, prospectuses are prepared for consideration and approval by the appropriate committees of the Congress for certain lease construction of space, pursuant to general provisions of the Independent Offices Appropriation Act for 1963.

Total cost or estimate:

1962	$311,751
1963	479,000
1964	498,500

Communities having sufficient concentration of Federal employment are surveyed to determine Federal space requirements and housing plans are developed. Resurveys are made and revised housing plans developed when required because of expansion or curtailment of an agency's activity in an area. During 1962 there were 258 communities surveyed for the first time and 188 communities resurveyed. A total of 500 surveys, comprising both initial and resurveys, are scheduled for accomplishment in both 1963 and 1964.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing.—$3,840,400 for 467 positions distributed as follows:

	1962			1963			1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
Acquisition	27	166	193	31	182	213	31	182	213
Assignment and utilization	28	147	175	32	159	191	32	171	203
Space requirements	15	25	40	16	35	51	16	35	51
Total positions	70	338	408	79	376	455	79	388	467
Average employment	64.5	313.2	377.7	77.5	372.5	450	77.5	384.5	462

Other objects.—$1,062,600 provides:

(1) $292,500 personnel benefits, including $250,000 retirement contribution, $26,200 health benefits, and $16,300 group insurance.

(2) $339,300 for contract appraisals of and advertising for property to be leased to the Government, and other contractual services.

The remainder of $430,800, or 8.8 percent of total estimate, includes:

(3) $171,000 travel based on 6,334 days at $27; $28,200 motor pool services; $7,100 transportation charges.

(4) $95,700 communications; $59,800 printing.

(5) $50,200 supplies; $18,800 equipment.

Mr. THOMAS. In 1963 you had $4,503,000. You go up to $4,903,000 in 1964. You break down your personnel. You had a total of 450 average employment for 1963, which goes up 12 to 462. It is broken down: In the field you had 372 in 1963 and 77 in the Department. For the Department this year you have the same figure, 77, and the field increases to 384. [Reading:]

This activity provides for (a) acquisition of real property by lease, purchase, exchange, or donation, including appraisal and management of building sites pending construction, (b) assignment and reassignment of Government-owned and leased space, and (c) review, analysis, and determination of Federal space requirements and the development of programs and projects for fulfillment.

You break this down between acquisition, assignment and utilization, and space requirements. We are interested in assignment and utilization. That goes up from $1,416,000 in 1962, to $1,720,000 in 1963, to $1,915,000 in 1964. [Reading:]

GSA's responsibilities in the acquisition and utilization of federally owned and leased office space in the United States were expanded and given greater emphasis by Executive Order 11035, dated July 9, 1962. Additional employment and funding are essential to fully carry out the objectives of this order and at the same time continue to provide the space needs of a growing Federal population.

If we give you more authority, you have to have more people to carry out the authority.

Mr. BOUTIN. We would have needed them whether we got the authority or not. We have been woefully inadequate.

Mr. THOMAS. Let us see what you say about acquisition. That has gone up from $2,050,000 in 1962, to $2,303,000 in 1963, to almost $2,500,000 in 1964. [Reading:]

Under this subactivity real property or interest therein is acquired by lease, exchange, purchase or donation; building sites held by GSA are put to productive uses pending construction of Federal facilities; and an appraisal service is provided for all PBS programs and, upon request, for other agencies.

APPRAISAL FEES

What do you spend on that appraisal service? You will make 1,492 staff appraisals in 1964 against 1,233 in 1963, and 1,023 in 1962. Adding contracts, it totals around 2,000 in 1964. What do you do, go out and get private appraisers? What do you pay them?

Mr. DALY. The average appraisal, Mr. Chairman, will cost about $1,000. It will vary, but it averages out about a thousand dollars.

Mr. THOMAS. You have a regular yardstick, a regular fee scale, have you not? What do you pay?

Mr. BOUTIN. Actually, Mr. Chairman, we have a list of approved appraisers for any given area of the country. We go out to them and ask them to submit proposals to appraise a property. We take the lowest proposal we can get in terms of time.

Mr. THOMAS. Is the unit cost based upon the value of the property, the size of it, or what is the yardstick? By what is it governed?

Mr. KNOTT. Time spent.

Mr. DALY. Time spent and complexity of the problem.

Mr. BOUTIN. These are the two big ones.

Mr. THOMAS. Do you usually allow them so much per diem—$100 a day, or what?

Mr. DALY. No, sir; it is a flat rate as far as we are concerned.

Mr. THOMAS. Whether 5 minutes or 5 days?

Mr. DALY. Yes, sir.

Mr. THOMAS. What is the usual fee?

Mr. DALY. About $1,000 for the type of work that we have been doing recently.

Mr. THOMAS. That is pretty indefinite. Have you not a yardstick to go by? I might want to get in the appraising business.

Mr. DALY. I think, sir, we probably could furnish for the record the actual fees for a number of appraisal projects that we have had in the past. As I say, it averages out about a thousand dollars.

Mr. THOMAS. How many sites did you buy last year?

Mr. BOUTIN. 127 in fiscal 1962, and we are anticipating 200 in 1963 and 300 in 1964.

Mr. THOMAS. You bought 127 different properties in 1962. Can you give us a description of some of them and the appraisal fee you paid?

Mr. DALY. I do not believe I have that information, Mr. Chairman. I will have to furnish it.

Mr. BOUTIN. You see, on architects, Mr. Chairman, we do have a sliding scale of fees, but in appraisals we do not have. We go out for proposals. You would be amazed at the difference in the proposals for the same piece of property. One fellow may say, "I will do it in 90 days, guaranteed, and charge you $30,000." Another fellow in the same community may say, "I couldn't do it for 6 months, and I will charge you $42,000." They are not even close.

We start out first having our own in-house appraisal to establish an estimated reasonable fee for this property, taking into consideration complexity, urgency, and all these things. We have no such pattern of fees.

Mr. THOMAS. We have already looked into the personnel setup here. This is appropriated funds charged directly to what? This does not come out of the building management fund, does it?

Mr. KNOTT. No, sir.

Mr. THOMAS. Why not? Why make fish out of this when you make fowl out of the other? You have your green sheets in here. The next one will not have a green sheet.

Mr. TURPIN. This is an identifiable function which really is not a part of the buildings operation as such.

Mr. THOMAS. You have to have a piece of land before you can put a building on it. You are not buying land just to be buying it. You are going to build something on it. Maybe you have to buy a piece of land to protect a building, or something like that, but normally it is connected with the construction of a building. You could argue about that.

Mr. JONAS. How much did you pay last year for appraisals?

Mr. BOUTIN. We have that figure and will supply it for the record.

(The information supplied follows:)

A total of $161,996 was spent for contract appraisals in 1962.

SELECTION OF APPRAISERS

Mr. JONAS. How do you select your appraisers?

Mr. BOUTIN. An appraiser who wants to get on our approved list can submit his qualifications. We have our own in-house appraisers that rule on the qualifications of that appraiser. It would depend, if he wants to qualify for industrial-type properties, he must have substantial experience and be recognized as an authority in this matter, experienced in court testimony.

Mr. JONAS. There is no need to have a list of approved appraisers on file in an area where you are not acquiring property.

Mr. BOUTIN. You never know when you are going to need them, Congressman. We try to have a group of approved appraisers.

Mr. JONAS. Do you try to maintain a nationwide list of appraisers?

Mr. BOUTIN. Yes.

Mr. JONAS. City by city?

Mr. BOUTIN. Yes. We use this list with other agencies, too. If we get a call from another agency and they ask, "What do you know about appraisers in Buffalo?" for example, we say, "Here is a list of approved appraisers we have for the type of property you are interested in."

Mr. OSTERTAG. Mr. Administrator, I am a bit confused as to where you are budgeting money for acquisition of sites. Is this money separate and apart from the money that is appropriated for sites planning and design?

Mr. BOUTIN. Yes.

Mr. OSTERTAG. In other words, it is associated with it to a certain extent, but moneys in the other fund would not be used for acquisition of property?

Mr. BOUTIN. In the sites and expenses appropriation, would be the money actually spent for the acquisition of the property, not for the events leading up to it.

Mr. THOMAS. This is salaries and expenses.

Mr. OSTERTAG. In other words, the money here is just for administration costs.

Mr. BOUTIN. Yes.

Mr. THOMAS. Let us come back in the morning, gentlemen, at 10 o'clock. Mr. Schmidt, bring something about your appraisers in the morning, giving us whatever information is available.

TUESDAY, FEBRUARY 19, 1963.

Mr. THOMAS. The committee will please come to order. We were looking over space management yesterday and talking about contract appraisals and advertising.

Were you able to come up with some figures on that?

Mr. DALY. Yes, Mr. Chairman. Mr. Schmidt has some figures on that.

Mr. THOMAS. Will you hold that in abeyance for just a moment? You have a travel item of $171,000, plus $28,200 for motor pool services and $7,100 for transportation charges.

You have $95,700 for communications, and $59,800 for printing. Also, $50,200 for supplies, and $18,800 for equipment. That does not give us much information, does it?

The committee has been anxious to get the agencies to curtail appreciably their travel bills; also the communications, and the printing and binding, and supplies and equipment, where possible.

Could you give us a breakdown of these items, and comparable figures for 1962, 1963, and 1964?

SPACE MANAGEMENT EMPLOYMENT

You were good enough, Mr. Budget Officer, to give us a breakdown of your personnel, which is very helpful. In the department you had, in 1962, 1 GS–17, 1 GS–16, 4 GS–15's, 12 GS–14's, 9 GS–13's, and 9 GS–12's. In the field you had no 17's, no 16's, 2 GS–15's, 12 GS–14's, 34 GS–13's. It does not vary too much in classification through 1963 and 1964.

I notice in 1964 in the field you still have no GS–17 and GS–16, but three GS–15's; but in the department you have four GS–15's, which is an increase of two GS–15's.

What are the qualifications of these people? Are they architects, or engineers, or what?

Mr. DALY. Mr. Chairman, in Washington the GS–17 is an Assistant Commissioner for Space Management. It is not necessary that he be either an architect or an engineer, because they are more concerned with the real estate side of the business than, actually, the technical side.

There is also a GS–16 who is a Deputy Assistant Commissioner for Space Management.

Then, with respect to the GS–15's, there is one GS–15 who is the director of the standards staff. That is the staff that actually works out the occupancy guides for the various departments and agencies. There is a GS–15 who is the Director of the Acquisition Division. That is the division which is concerned with the acquisition of leased space and acquisition of sites. Then there is a GS–15——

Mr. THOMAS. Are all these people what we call expert real estate men?

Mr. DALY. Yes, sir.

Mr. THOMAS. What are the qualifications of a man who is to allocate space, who has to do with the assignment of space? What is his training and experience, and background?

Mr. DALY. That is a difficult function, and we have found, Mr. Chairman, that, generally speaking, we have to train our own people. If we can get someone with some architectural training, that is very helpful, because this has to do with the space layout within the building so we can conserve space and eventually get down to this figure of 140 square feet per person.

Mr. THOMAS. You are getting the cart before the horse there, are you not? That is the job of the architect. He cannot change the space after it is handed to him. He has to assign it and utilize it in the shape it is given to him, does he not?

Mr. DALY. Yes, sir. The point I was making, though, sir, is that, by scientific arrangement of workflow and furniture, we can get more people in a given area of space, and the type of people we have in the Assignment and Utilization Division are people who are skilled in that line of work—in space layout—to get the best usage out of the space we have in the buildings.

Mr. THOMAS. Where did they acquire that skill? Do you train them? How do you pick him in the first place? If he does not know anything about the business, how are you going to pick him? If you are to train him, what do you require him to have—a Ph. D. in math or psychology?

Mr. DALY. No, sir. A young man with a background in business administration can learn this. As I say, if you are fortunate enough to get a young architect or someone who has a feel for space and mathematics, it is helpful. By and large, we have had to train our own people in this particular field.

Mr. THOMAS. What do your people in the field do?

Mr. DALY. Mr. Chairman, a typical field office for the Space Management Division would be a Chief of the Space Management Division, who would be a GS–14 or GS–15, depending on the size of it. He would have the same type of functional activities under him.

Mr. THOMAS. In your 10 regional offices, how many people do you have assigned to space management?

Mr. DALY. In the 10 regional offices, in 1964 we will have a total of 388 full-time positions.

Mr. THOMAS. And 80 in the District of Columbia, is that correct?

Mr. DALY. In 1964, 79 departmental, sir.

Mr. THOMAS. And 388 in the field.

Mr. DALY. Yes, sir.

Mr. THOMAS. That is about 40 to the office, averaging the big ones and little ones?

Mr. DALY. Dallas, for example, has 33 people.

Mr. THOMAS. What do the 79 people in the District of Columbia do, if you have 388 in the field? That is where the work is done, is it not?

Mr. DALY. Yes, sir, but the people in the District of Columbia, for example——

Mr. THOMAS. This 79 is not in your field office of the District of Columbia. This is the headquarters.

Mr. DALY. That is the departmental headquarters, that is correct, sir. The departmental people have to review some of the work and then they are the people, Mr. Chairman, who actually pull together our prospectuses and do the work in connection with building up the program and directing the activities of the field.

Mr. Schmidt, do you want to add anything to that?

Mr. THOMAS. Do you mean you have 79 chiefs and 388 Indians?

Mr. DALY. No, sir, I will not agree that all of the 79 are chiefs. We have some workers and some Indians in there, too, sir. For example——

Mr. THOMAS. Let us see. There are 40 GS–11 to GS–17. They are certainly chiefs, are they not? You have 40 chiefs, and 388 Indians.

Mr. BOUTIN. In the central office, Mr. Chairman, I would not call anybody a chief below grade 15. They are all Indians. They are in there pitching every day. A good example of what is done in the central office——

Mr. THOMAS. That is just the point. You have 388 in the field where the work is done. What are they doing, pitching papers?

Mr. BOUTIN. They review many of the things that come in from the field. One of the most significant things are these occupancy guides which they put together. They sit down with Internal Revenue and determine their space requirements.

Mr. THOMAS. What authority does the field have? Does the field have to send everything up to headquarters to get approval?

Mr. BOUTIN. A lot of the significant work they have to. Another thing they do, before I forget it, Mr. Chairman, in the central office we get our space requirements in all our new buildings from the various agencies. The architects design the buildings. These people in space management lay out the space, lay out the desks, to get the best utilization of that space possible.

Mr. THOMAS. New buildings are a smaller part of your program.

Mr. BOUTIN. It is in new buildings, and also in existing buildings. We are reviewing the space on a day-to-day basis.

Mr. THOMAS. What do the people in the field do? Why have so many people in the field if they are not competent to do the job? They walk over the space and see it every day. Is that the reason you will have a travel bill of $171,000, that the people in the District of Columbia have to go down and doublecheck the people in the field?

SELECTION AND ACQUISITION OF SITES

Mr. BOUTIN. It has to happen occasionally, Mr. Chairman, but I think one of the big expenses here is on the acquisition of sites for new buildings. There is nothing any more controversial than selecting a site.

Mr. THOMAS. We agree with you.

Mr. BOUTIN. We make community surveys. We get requests continuously.

Mr. THOMAS. Don't the people in the field do that? You do not have to send people from the Washington office when you have a grade 14 in the district office.

Mr. BOUTIN. This is normally handled in the region, but we do very frequently have to send these fellows out. Some of these sites are very, very expensive, and we have to make sure that we are right.

Actually, the statute requires the Administrator to make the selection, and I do not want to make a selection that I do not think is a good one. We review these things very carefully.

Mr. THOMAS. The statute deals with the Administrator, and you are responsible for your agency, but no one expects you to go out and do everything.

Mr. BOUTIN. Let us put it this way: There is no passing the buck beyond me. I cannot blame anybody else. When I get my name on the line, I am the guy who is responsible.

Mr. THOMAS. That is what draws the blood, your name on the line. Anything short of that does not draw it.

Mr. OSTERTAG. Are decisions made in the field?

Mr. BOUTIN. Recommendations are made in the field.

Mr. OSTERTAG. And all of the final processing is in the central office?

Mr. BOUTIN. The final processing on the big ones is in the central office, but the smaller ones are done strictly in the field.

OTHER OBJECTS OF EXPENSE—SPACE MANAGEMENT

Mr. THOMAS. Give us a little preview of these "other objects." It appears to me they are getting out of line.

You use this sentence under assignment and utilization:

> The total increase of $194,000 in 1964 consists of $77,000 due to pay costs authorized by the Federal Salary Reform Act of 1962; $104,000 for 12 additional field positions; and $13,000 for travel.

We assume by that, printing and reproduction is the same as last year, and other services are the same as last year, supplies and materials are the same as last year, equipment is the same as last year. The only increase is for 12 jobs and a $13,000 increase in travel.

Mr. BOUTIN. Could I point out one thing, Mr. Chairman?

Mr. THOMAS. What about those items, though? Is that assumption correct?

Mr. TURPIN. That is correct, sir. There are 12 additional employees in 1964 over 1963, and they are all in the Assignment and Utilization Division.

Mr. THOMAS. What about the items besides 12 new jobs and $13,000 for travel? What about the "Other objects"—printing and reproduction, supplies and materials, equipment, and so forth?

CONTRACT APPRAISALS

Mr. SCHMIDT. One other increase in other services is $100,000 for contract appraisals.

Mr. THOMAS. You do not give us very much information here, do you?

Mr. Daly, what about your appraisals? You said they averaged about $1,000 each.

Mr. DALY. Yes. I would like Mr. Schmidt to speak to this point because we have some typical cases. Unfortunately, Mr. Chairman——

Mr. THOMAS. How much did you spend in the complete year 1962 for appraisals, and where did you spend it? Mr. Jonas asked for that yesterday. Give us a little detail itemization, if you will, please.

Mr. SCHMIDT. We spent $161,996 for contract appraisals in 1962. I do not have the exact locations where this money was spent. As Mr. Daly indicated, most of our——

Mr. THOMAS. We asked you yesterday and gave you all afternoon and all night to bring us detailed information on it. You have that information, surely.

Mr. SCHMIDT. Most of these appraisals are handled at field level. I have, however, selected some site acquisition appraisals from our records in the central office.

Mr. THOMAS. I thought these 79 people had traveled to the field and did the selecting. Now you are saying the field does it.

Mr. SCHMIDT. Most of the work is done at the field level. Only the more complicated cases are reviewed in the central office.

Mr. THOMAS. All right, please look through your records and give us a breakdown of that $161,000. How many cases were appraised? What was the fee for them? Can you name some of them? You said it averaged about $1,000 each. That would be about 138 appraisals.

Mr. SCHMIDT. Here are some typical appraisals.

Mr. THOMAS. We are not asking for typicals. We are asking what you did in 1962 for the $161,000.

Mr. DALY. We will furnish it for the record, sir.

Mr. SCHMIDT. We do not have a list of all those appraisals, sir.

Mr. THOMAS. When can you get it? We asked you yesterday to bring it in.

Mr. DALY. Yes, sir; but most of that detail is in the regional offices, and we are sending for it.

Mr. THOMAS. If you have no information here and you rely on the field, we will take out your 79 District of Columbia people. We assume that is the logical thing to do, because from what you have said, everything is done in the field.

Mr. OSTERTAG. I should think it would be a part of the records and responsibilities of your central office to have that.

Mr. DALY. I do not think we have it in the detail that the chairman wants. We will get it from the field and furnish it.

Mr. THOMAS. Apparently you do not have much that we want.

(The information supplied follows:)

APPRAISAL CONTRACTS AWARDED DURING FISCAL YEAR 1962

Financed from "Operating expenses, Public Buildings Service"

[All appraisal contracts charged to this appropriation were in connection with inleasing]

Location	Cost
Region No. 1—Boston, Mass.:	
Hartford, Conn	$900
Harvard, Mass	600
Region No. 2—New York, N.Y.:	
Bronx, N.Y	800
Bronx, N.Y	350
Brooklyn, N.Y	400
New York, N.Y. (30 Church St.)	2,000
New York, N.Y. (250 Hudson St.)	1,500
New York, N.Y. (111 E. 16th St.)	1,000
Garden City, N.Y	375
Ogdensburg, N.Y	950
Buffalo, N.Y	720
Rochester, N.Y	850
Camden, N.J	200
Newark, N.J	350
New Brunswick, N.J	150
Philadelphia, Pa	400
Philadelphia, Pa	400
Philadelphia, Pa	500
Scranton, Pa	650
San Juan, P.R	900
Region No. 3—Washington, D.C.:	
Washington, D.C. (1619 Massachusetts Ave. NW.)	2,000
Washington, D.C. (1614 17th St., NW.)	1,750
Washington, D.C. (1126 21st St., NW., and 2111 L St., NW.)	1,800
Washington, D.C. (701 Lamont St., NW.)	1,000
Washington, D.C. (815 Connecticut Ave.)	2,250
Washington, D.C. (433 3d St., NW.)	750
Washington, D.C. (1101 Pennsylvania Ave.)	2,500
Washington, D.C. (1222 16th St., NW.)	750
Washington, D.C. (1615 L St., NW.)	750
Washington, D.C. (1028 Connecticut Ave.)	2,500
Washington, D.C. (1317-31 H St., NW.)	2,700
Washington, D.C. (918 G St., NW.)	1,400
Washington, D.C. (225 D St., SE.)	350
Washington, D.C. (1604 Rhode Island Ave.)	600
Washington, D.C. (1729 New York Ave.)	2,250
Washington, D.C. (400 6th St., NW.)	975
Washington, D.C. (1331 U St., NW.)	1,500
Washington, D.C. (McArthur Blvd. and V St.)	900
Washington, D.C. (1230 16th St., NW.)	1,000
Washington, D.C. (1016 16th St., NW.)	2,000
Washington, D.C. (1815 H St., NW.)	2,250
Region No. 3—Continued	
Washington, D.C. (1137-41 19th St., NW.)	$1,000
Washington, D.C. (1536 U St., NW.)	850
Washington, D.C. (1107 16th St., NW.)	1,500
Washington, D.C. (1221 Taylor St., NW.)	1,000
Arlington, Va	950
Do	1,100
Do	800
Arlington, Va. (South Eads St.)	6,500
Alexandria, Va	500
Do	700
Newport News, Va	300
Roanoke, Va	1,000
Norfolk, Va	650
Catonsville, Md	250
Baltimore, Md	1,400
Do	500
Silver Spring, Md	1,000
Do	1,600
Do	1,000
Do	800
Adelphi, Md. (2340 University Blvd.)	1,000
Aberdeen, Md	400
Laurel, Md	500
Charleston, W. Va	350
Huntington, W. Va	600
Region No. 4—Atlanta, Ga.:	
Montgomery, Ala	200
Do	1,200
Do	1,500
Birmingham, Ala	850
Do	
Do	120
Do	240
Do	75
Florence, Ala	100
Do	100
Chamblee, Ga	800
Savannah, Ga	135
Do	135
Miami, Fla	200
Do	800
Jacksonville, Fla	400
Melbourne, Fla	150
Pensacola, Fla	100
Greenwood, Miss	100
Jackson, Miss	150
Do	100
Do	180
Do	500
Greenwood, Miss	125
Hattiesburg, Miss	100
Natchez, Miss	100
Do	100
Vicksburg, Miss	100
Do	125
Chattanooga, Tenn	100
Do	100
Knoxville, Tenn	300
Do	120

Financed from "Operating expenses, Public Buildings Service"—Continued

[All appraisal contracts charged to this appropriation were in connection with inleasing]

Location	Cost
Region No. 4—Continued	
Knoxville, Tenn	$100
Do	150
Cookeville, Tenn	175
Jackson, Tenn	150
Columbus, Miss	
Meridian, Miss	450
Jasper, Ala	
Raleigh, N.C	
Rocky Mount, N.C	500
Durham, N.C	
Goldsboro, N.C	
Do	500
Greenville, N.C	
Fort Lauderdale, Fla	
St. Augustine, Fla	950
West Palm Beach, Fla	
Tampa, Fla	
Miami, Fla	
Do	600
Coral Gables, Fla	
Miami, Fla	
Memphis, Tenn	
Do	
Do	
Nashville, Tenn	1,700
Dyersburg, Tenn	
Nashville, Tenn	
Chattanooga, Tenn	
Region No. 5—Chicago, Ill.:	
Cleveland, Ohio	750
Do	950
Do	2,000
Cincinnati, Ohio	1,000
Milwaukee, Wis	450
Do	450
Detroit, Mich	4,800
Do	2,400
Springfield, Ill	700
Chicago, Ill	250
Do	600
Chicago, Ill (35 E. Wacker Dr.)	5,000
Chicago, Ill (36 S. Wabash Ave.)	5,600
Chicago, Ill. (360 N. Mich. Ave.)	1,850
Chicago, Ill. (22 W. Madison St.)	1,250
Chicago, Ill. (615 W. Van Buren)	950
Chicago, Ill. (185 N. Wabash Ave.)	1,500
Region No. 6—Kansas City, Mo.:	
Kansas City, Mo	250
St. Louis, Mo	100
Region No. 7—Dallas, Tex.:	
Austin, Tex	386
Dallas, Tex	1,100
Fort Worth, Tex	200
Houston, Tex	300
Waco, Tex	750
New Orleans, La. (120 N. Marais St.)	2,450
New Orleans, La. (400 Royal St.)	3,450
Region No. 8—Denver, Colo.: None	
Region No. 9—San Francisco, Calif.:	
Phoenix, Ariz	750
Do	1,900
Do	325
Honolulu, Hawaii	400
Do	380
Do	325
Do	750
Do	325
Carson City, Nev	250
Reno, Nev	200
Las Vegas, Nev	$300
Berkeley, Calif	300
Do	270
Do	300
Eureka, Calif	250
Glendale, Calif	700
San Francisco, Calif	1,200
Do	350
Do	1,000
Do	150
Do	900
Do	300
Do	1,750
Do	300
Fresno, Calif	150
Do	300
Hollywood, Calif	250
Do	350
North Hollywood, Calif	300
Do	300
Menlo Park, Calif	750
Los Angeles, Calif	250
Do	2,000
Do	1,250
Do	300
Riverside, Calif	700
Do	300
Do	300
Do	325
Do	1,250
San Diego, Calif	250
Long Beach, Calif	300
Redding, Calif	300
Red Bluff, Calif	250
Do	300
Pomona, Calif	350
Salinas, Calif	200
San Jose, Calif	350
Stockton, Calif	300
Santa Ana, Calif	300
San Luis Obispo, Calif	250
Torrance, Calif	300
Do	300
Whittier, Calif	250
Willows, Calif	500
Yuba City, Calif	300
17 inlease appraisals of various locations in California and Arizona: Bakersfield, 2; Imperial County, 1; Los Angeles, 3; Palm Springs, 1; Whittier, 1; San Diego, 1; Santa Barbara, 2; Ventura, 1; Phoenix, 3; Tucson, 1; and Yuma, 1	2,500
Region No. 10—Auburn, Wash.:	
Portland, Oreg	1,200
Eugene, Oreg	125
Billings, Mont	1,250
Do	350
Hamilton, Mont	325
Boise, Idaho	400
Spokane, Wash	1,500
Wenatchee, Wash	450
Juneau, Alaska	550
Total number of inlease appraisal contracts, 200.	
Total number of properties appraised, 236.	
Total cost of inlease appraisal contracts	161,996

Financed from "Sites and expenses, public buildings projects"

[All appraisal contracts charged to this appropriation were in connection with the acquisition of sites for new construction]

Location	Cost
Region No. 1—Boston, Mass.:	
Hodgdon, Maine	$100
Concord, N.H.	2,200
Do	2,950
Do	800
Vanceboro, Maine	1,400
Augusta, Maine	200
Region No. 2—New York, N.Y.:	
None	
Region No. 3—Washington, D.C.:	
Charlottesville, Va	350
Region No. 4—Atlanta, Ga.:	
Jacksonville, Fla	2,500
Thomasville, Ga	400
St. Petersburg, Fla	1,500
Region No. 5—Chicago, Ill.: Seymour, Ind	150
Region No. 6—Kansas City, Mo.:	
University City, Mo	600
St. Paul, Minn	200
Faribault, Minn	350
Omaha, Nebr	250
Des Moines, Iowa	9,500
White Bear Lake, Minn	250
Region No. 7—Dallas, Tex.: Fort Worth, Tex	$3,700
Region No. 8—Denver, Colo.: None	
Region No. 9—San Francisco, Calif.:	
San Diego, Calif	300
Azusa, Calif	150
Calexico, Calif	200
Eureka, Calif	200
Tucson, Ariz	375
San Bernardino, Calif	300
Santa Ana, Calif	250
Nogales, Ariz	100
Nogales, Ariz	200
Calexico, Calif	300
Region No. 10—Auburn, Wash.:	
Spokane, Wash	2,400
Medford, Oreg	1,850
Total number of site acquisition appraisal contracts, 30.	
Total number of properties appraised, 30.	
Total cost of site acquisition appraisal contracts	34,625

Financed from other agencies' funds

[All appraisal contracts charged to funds of other agencies were in connection with the acquisition of land for construction purposes]

Location	Agency	Cost
Region No. 1—Boston, Mass.:		
Ayer, Mass	Post Office Department	$400
Laconia, N.H	do	300
Lexington, Mass	do	450
Southbridge, Mass	do	500
Rumford, Maine	do	250
Region No. 2—New York, N.Y.:		
Middletown, Pa	do	250
Garfield, N.J	do	250
Westfield, N.J	do	150
Westwood, N.J	do	1,000
Jenkintown, Pa	do	450
Coatesville, Pa	do	285
Tonawanda, N.Y	do	300
Brooklyn, N.Y	do	1,000
Somerville, N.J	do	475
Port Washington, N.Y	do	1,700
Brooklyn, N.Y	do	800
Region No. 3—Washington, D.C.:		
Hagerstown, Md	do	250
Beltsville, Md	do	225
Frederick, Md	do	475
Dundalk, Md	do	375
Elkton, Md	do	350
Chantilly, Va	Federal Aeronautics Administration	10,000
Fairfax County, Va	do	105
Chantilly, Va	District of Columbia Government	1,400
Fairfax County, Va	do	1,700
Chantilly, Va	Federal Aeronautics Administration	1,500
Do	do	1,600
Do	do	150
Do	do	150
Do	do	50
Do	do	3,000
Do	do	3,200
Do	District of Columbia Government	300
Baltimore, Md	Bureau of Old Age and Survivors' Insurance.	1,000
Do	do	1,000
Do	do	250

Financed from other agencies' funds—Continued

[All appraisal contracts charged to funds of other agencies were in connection with the acquisition of land for construction purposes]

Location	Agency	Cost
Region No. 4—Atlanta, Ga:		
Gaffney, S.C.	Post Office Department	$450
Fayetteville, Tenn.	do	450
Jackson, Tenn.	do	700
Scottsboro, Ala.	do	400
New Albany, Miss.	do	250
Marianna, Fla.	do	300
McMinnville, Tenn.	do	450
Fayetteville, N.C.	do	2,000
Clarksdale, Miss.	do	350
Macon, Ga.	do	3,200
Do.	do	750
Atlanta, Ga.	Department of Health, Education, and Welfare.	100
Lumberton, N.C.	Post Office Department	500
Region No. 5—Chicago, Ill.:		
Dover, Ohio	do	950
Xenia, Ohio	do	125
Butler County, Ohio	U.S. Information Agency	750
Royal Oak, Mich.	Post Office Department	250
Herrin, Ill.	do	50
Marquette, Mich.	do	2,050
Berea, Ohio	do	500
Hobart, Ind.	do	800
Monticello, Ind.	do	400
Region No. 6—Kansas City, Mo.: None		
Region No. 7—Dallas, Tex.:		
Harlingen, Tex.	Post Office Department	1,000
Camden, Ark.	do	500
Siloam Springs, Ark.	do	250
Beaumont, Tex.	do	4,850
Oklahoma City, Okla.	Federal Aeronautics Administration	2,250
Okmulgee, Okla.	Post Office Department	600
Region No. 8—Denver, Colo.: None		
Region No. 9—San Francisco, Calif:		
Alhambra, Calif.	do	1,150
Monrovia, Calif.	do	900
Rivermore, Calif.	do	500
Santa Maria, Calif.	do	300
Beverly Hills, Calif.	do	700
Do.	do	400
Alhambra, Calif.	do	800
South Pasadena, Calif.	do	1,000
Porterville, Calif.	do	650
Region No. 10—Auburn, Wash.:		
Hillsboro, Oreg.	do	400
Omak, Wash.	do	500
Great Falls, Mont.	do	100
Nampa, Idaho	do	50
Pendleton, Oreg.	do	300
Puyallup, Wash.	do	700
Total number of appraisal contracts awarded for other agencies, 79.		
Total number of properties appraised, 79.		
Total cost of appraisal contracts awarded for other agencies		69,315

Financed from "Repair and improvement of public buildings"

[All appraisal contracts charged to this appropriation were in connection with the acquisition of land for the extension of a building]

Location	Cost	Location	Cost
Region No. 1—Boston, Mass.: None		Region No. 10—Auburn, Wash.: None	
Region No. 2—New York, N.Y.: None			
Region No. 3—Washington, D.C.: None		Total number of appraisal contracts charged to the R. & I. appropriation—2.	
Region No. 4—Atlanta, Ga.: None			
Region No. 5—Chicago, Ill.: Hinsdale, Ill.	$175	Total number of properties appraised—2.	
Region No. 6—Kansas City, Mo.: None			
Region No. 7—Dallas, Tex.: None		Total cost of appraisal contracts charged to the R. & I. appropriation	$2,175
Region No. 8—Denver, Colo.: Denver, Colo. (U.S. Mint)	2,000		
Region No. 9—San Francisco, Calif.: None			

Summary

	Number of contracts	Total cost	Average cost per contract
Operating expenses, Public Buildings Service	200	$161,996	$809.98
Sites and expenses	30	34,625	1,154.16
Funds of other agencies	79	69,315	877.40
Repair and improvement	2	2,175	1,087.50
Total	311	268,111	862.09

SITE DONATIONS

Mr. OSTERTAG. Before you leave space managament, may I ask just one question about donations, which is a part of your acquisition, is it not, Mr. Administrator?

Mr. BOUTIN. I did not get the question.

Mr. OSTERTAG. Donations.

Mr. BOUTIN. Donations have no part in here, other than donations to the Government.

Mr. OSTERTAG. That is what I mean.

Mr. BOUTIN. It would have no bearing at all on this appropriation. It would have bearing only on the "S. & E." appropriation. Whether we had money appropriated for the site or if we had a site donated, it would include only the cost of administration.

APPROVAL OF LEASES AND SITE ACQUISITIONS

Mr. EVINS. Mr. Administrator, have you a firm line that the people in the field approve up to a certain amount, and the Administrator in Washington approves beyond that, a larger amount? Have you such a line of division?

Mr. BOUTIN. We have as far as leases are concerned, Mr. Congressman. On acquisition of sites we have not, except in the accelerated public works program. We have no authorized projects yet, and that will be before Public Works tomorrow. If that comes to realization, because of limitations of time, we will delegate that to the field.

Mr. EVINS. All acquisitions come in to Washington, then?

Mr. BOUTIN. And are reviewed in Washington and are sent up to the Administrator for his approval.

Mr. EVINS. Some leases are approved in the field?

Mr. BOUTIN. A great many of the small leases are.

SPACE MANAGEMENT RESPONSIBILITY AND EFFICIENCY

The point I wanted to make, Mr. Chairman, is that the paragraph at the top of page 38, is one of the most significant in this whole section, because it speaks to workload and it indirectly speaks to additional efficiency within the Government itself, because we have increased the number of urban centers where GSA——

Mr. THOMAS. I have this underlined here.

Mr. BOUTIN (continuing). undertakes the leasing responsibility from the other agencies that are each doing their own leasing now.

Mr. THOMAS. You brought that on yourself, did you not, through your own regulations?

Mr. BOUTIN. We made the determination, that is correct, Mr. Chairman. I do not think we are doing our job until we blanket the whole United States and centralize this responsibility of management of space. We cannot do it until we develop sufficient skilled personnel to undertake the responsibility. This means if Agriculture has a little Soil Conservation office in a town, we will go in and manage the space for them—acquire the space and lay the space out, so we have maximum efficiency. This means somebody from the regional office must go into that town and see that space.

Mr. THOMAS. You are increasing your activities under the new Executive order and that is most commendable.

Mr. BOUTIN. That is correct.

Mr. THOMAS. That is the reason we pointed out two or three times we think it is a very important activity.

UTILIZATION OF EXCESS POST OFFICE SPACE

Mr. OSTERTAG. On that point, what do you do in a case where there might be a post office which would have, by modernization or improvements, space available for other Federal agencies?

Mr. BOUTIN. We make an economic evaluation of that building, Congressman, and we make a determination whether it is economically beneficial to the Government to convert it and keep it, or to put it up for disposal by sale or donation.

Mr. OSTERTAG. Have you jurisdiction over that, or would the Post Office Department have jurisdiction?

Mr. BOUTIN. The minute the Post Office moves out, it comes to GSA.

Mr. OSTERTAG. I did not mean moving out. I meant remodeling or modernizing the building to include other Federal agencies.

Mr. BOUTIN. In many cases, if they are modernizing postal space, we will join with Post Office and make it one project—we providing part of the funds and they providing part—to modernize the building for continued Federal use.

Mr. OSTERTAG. But, you have jurisdiction over requiring the Post Office Department to make it available.

Mr. BOUTIN. No; we do not.

Mr. OSTERTAG. I know of one or two locations where that might well be done.

Mr. BOUTIN. Frankly, Congressman, there are hundreds and hundreds of locations that we are reviewing with Post Office to see what we can do to modernize space and keep it for a long time.

COMMUNICATIONS COST—SPACE MANAGEMENT

Mr. THOMAS. What about this item of $95,700 for communications? What was your expenditure for 1962 and 1963 for communications?

Mr. TURPIN. In 1962, sir, it was $86,890, as compared with an estimate for 1963 of $95,700; and the same for 1964.

Mr. THOMAS. Has not telecommunications cut down the bill? Apparently not.

Mr. BOUTIN. Most of this is increased postal costs.

Mr. THOMAS. Mail costs? Can you break it down?

Mr. BOUTIN. Have you a breakdown on that, Mr. Daly?

Mr. DALY. I have a breakdown, sir, with respect to the telephone charges. Equipment rental, mileage charges, $42,700. Tie-line service cost, $10,000. Long-distance phone calls, $35,000. Teletype services, $8,000.

Mr. THOMAS. That is more than $95,700, is it not?

Mr. DALY. $95,700.

Mr. THOMAS. What was your postal cost? I did not get that.

Mr. BOUTIN. Where did you include that, Mr. Daly?

Mr. DALY. The postal costs are carried under "Service direction" and not under "Space management."

Mr. THOMAS. How much was that?

Mr. TURPIN. $35,000.

Mr. THOMAS. You add that, then, to your $95,000, and you come up with how much? About $130,700 for communications.

Mr. TURPIN. I think Mr. Daly was just giving the breakdown on the communications costs for the space management activities, and not the OE–PBS area.

Mr. THOMAS. We asked him, and he said about $35,000 was mail costs.

Mr. TURPIN. Yes, sir. The total payment that we make to the Post Office Department for postage fees for this OE–PBS area is $35,000.

Mr. THOMAS. What part of that $35,000 is allocated to space management?

Mr. DALY. We do not have that breakdown. We will supply it.

(The following was supplied for the record:)

The breakdown is $24,240 for space management, $3,700 for design and construction, $2,800 for program planning, and $4,300 for service direction.

PRINTING COSTS—SPACE MANAGEMENT

Mr. THOMAS. What do you do for the printing item of $59,800?

Mr. DALY. Mr. Chairman, this item represents the printing or occupancy guides, layout plans, regulations, and procedures that have to do with other agencies, our manuals and procedures, and handbooks. I think the Administrator has some samples.

Mr. THOMAS. Here is one the Administrator has handed us entitled "Occupancy Guide." How often is this printed, and what does it cost? How many copies do you print?

Mr. DALY. How many occupancy guides do we have?

Mr. SCHMIDT. We have a total of 47 guides issued to date. We expect to issue another 11 by the end of April.

Mr. THOMAS. Does the guide go to one particular bureau? This one is headed "Bureau of Reclamation, Regional Offices, U.S. Department of Interior."

Mr. DALY. That is correct, sir. We issue a guide, for a particular bureau or agency, which sets forth the standards that are applicable to its particular type of work.

Mr. THOMAS. How often do you issue these guides to the bureaus?

Mr. DALY. We will issue it once, and update it as it becomes necessary.

Mr. THOMAS. What will you do for your $59,800 for printing in 1964?

Mr. DALY. We think our printing bill in 1964 will be the same as it was in 1963, which was $59,800, and in addition to issuing the occupancy guides——

Mr. THOMAS. How many guides did you print in 1963?

Mr. DALY. Copies, sir? I would have to look it up. I do not have that figure.

Mr. THOMAS. How many do you intend to print in 1964?

Mr. DALY. In 1964, we have 11 more guides; but, Mr. Chairman, the guides are just part of the printing work. In addition, as I say, we have regulations, procedures, manuals, that our own people use——

Mr. THOMAS. Have you copies of them here?

Mr. DALY. Yes, sir.

Mr. BOUTIN. We have here various samples of printing that is done in the PBS area, Mr. Chairman.

Mr. DALY. Here is a handbook on the appraisal of real property that our own people use.

Mr. THOMAS. What is your printing bill to run all the activities of the Public Buildings Service? This is just one segment of it.

Mr. TURPIN. For the items in here, excluding the buildings management program, it is $84,500. That is the total. Of course, the largest portion of that is in the space management activity, $59,800.

Mr. THOMAS. What is the charge against the fund? Give us a wrap-up figure for what you are spending in 1963 and 1964 for printing and binding in the Public Buildings Service, in all its ramifications and activities.

Mr. BOUTIN. While he is looking that up, Mr. Chairman, just about 100 percent of the printing is done in our own print shop.

Mr. THOMAS. Mimeographing?

Mr. BOUTIN. Offset, mimeograph, hectograph, flatbed, rotary, the whole gamut.

TOTAL OTHER OBJECTS OF EXPENSE—PBS

Mr. TURPIN. The total for printing and binding in the whole OE–PBS area was $326,000 for fiscal year 1962, and it is estimated at $334,500 in both 1963 and 1964.

Mr. THOMAS. What part of that $334,500 is contributed to by other agencies—10 percent?

Mr. TURPIN. I would estimate it would be over 25 percent, Mr. Chairman. That is the best estimate that I can make at this time; yes, sir.

Mr. THOMAS. That is reimbursable?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Do you have a table showing throughout the agency all your big 6 or 7 activities, your "Other Objects" breakdown—travel, supplies and material, printing and reproduction, all your "Other Objects?"

Mr. TURPIN. Not all the "Other Objects". We do have a summary table already prepared on the travel. We do not have a summary table ready at the moment on all the "Other Objects" for GSA in total. We have it for the individual appropriations.

Mr. THOMAS. Do you have it for your seven big services.

Mr. TURPIN. Yes, sir, we have a summary behind each of our service appropriations.

Mr. THOMAS. Put your finger on the one for PBS, the wrap-up on it.

Mr. TURPIN. On the PBS, sir, it would be in two pieces.

Mr. THOMAS. Where is it in the justification book?

Mr. TURPIN. On the OE, PBS summary, it is on page 49.

Mr. THOMAS. What does this purport to give?

Mr. TURPIN. This is the summary of all the obligations of the OE–PBS appropriations by object class.

Mr. THOMAS. Yes; this is it. Does this include it all?

Mr. TURPIN. That is the grand total; yes, sir.

Mr. THOMAS. You have travel, $307,500 for 1962, $400,000 for 1963, $450,000 for 1964. Then you have travel, motor pool, $32,500 for 1964. Printing and reproduction, $95,800 for 1962, $84,500 for 1963, $84,500 for 1964.

You gave us a complete wrap-up figure a while ago of $334,500.

Mr. TURPIN. That is correct, sir.

Mr. THOMAS. Why the inconsistency?

Mr. TURPIN. The summary page you are looking at on page 49 is the summary by objects, of the total OE–PBS appropriation. Then for the other services, which is the big sum, that is financed through the buildings management fund. Then on the printing and binding figure that you asked for, I took the figure of $84,500, which is for all OE–PBS items except the BM fund, and then I added to it the object class of $250,000 in the BM fund for printing and binding, which brought us up to $334,500.

Mr. THOMAS. You failed to show the $254,000 which is in the BM fund for printing and binding.

Mr. TURPIN. On that page, yes, sir; because it is included——

Mr. THOMAS. What do you mean, on that page?

Mr. TURPIN. It does show up, Mr. Chairman, under the buildings management fund on page 36, $250,000 for printing and reproduction.

Mr. THOMAS. This is the summary on the fund. Let us see if we have it checked out here. Printing and reproduction, $250,000; supplies and materials, $15,500,000. Travel is what—$55,000?

Mr. TURPIN. That part, yes, sir; that is financed through the fund.

Mr. THOMAS. This is only to the fund?

Mr. TURPIN. This is that part within the building operations that is financed through the buildings management fund.

Mr. THOMAS. Page 50 is your summary of all PBS.

Mr. TURPIN. That is all of OE–PBS, and that is the explanation of what is in the 1964 column that appears on page 49, Mr. Chairman.

Mr. THOMAS. Your figures do not dovetail. You have travel and transportation of persons, $482,500.

Mr. TURPIN. Sir, the figure of $482,500 is the explanation of the items appearing on page 49, just preceding it, which is $450,000 for travel, plus $32,500 for payments to the motor pool, which makes the $482,500.

Mr. THOMAS. These two figures come out all right, then?

Mr. TURPIN. Yes, sir, they do.

Mr. THOMAS. This is a somewhat weak justification of the green sheets on your summary sheet.

Then you have rents, communications, and utility services, $162,900. Here is where you charge in your $35,000 postage fees?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. And $127,900 for normal telephone and teletype service. You have a wrapup figure of $162,900 for rents, communications, and utility services. [Reading:]

Printing and reproduction of administrative and program materials, including floor plans of buildings for use in space assignment and utilization surveys, $84,500.

Do you know how many of these pamphlets you are going to publish this year for $84,500?

Mr. DALY. The $84,500 would cover not only the occupancy guides we spoke to earlier, Mr. Chairman, but many other pamphlets. I would have to give you an individual breakdown by type and kind.

EQUIPMENT

Mr. THOMAS. You have equipment, $733,100, which includes $150,000 for replacement of cafeteria equipment and $583,100 for furniture for GSA. Then you have administrative supplies and materials, $71,000. What part of that is charged to space management? You have $50,200 for supplies, $18,800 for equipment. For all the Public Buildings Service, you have $733,100 in here for equipment. You charge $18,800 to space management. Is that correct? What is that $18,800 for?

Mr. DALY. That is correct. That is the part of the equipment that is chargeable to the space management function, sir.

Mr. THOMAS. We assume that; but what is the $18,800 for?

Mr. DALY. That includes the cost of office equipment, such as typewriters, adding and calculating machines, and furniture such as desks, chairs, and so forth.

Mr. THOMAS. Does this equipment item of $733,100 include the big buildings management fund?

Mr. TURPIN. On equipment purchases out of the OE–PBS, it is charged directly to the OE–PBS appropriation rather than through the fund.

Mr. THOMAS. Then there is no charge against the fund for equipment?

Mr. TURPIN. For this equipment, no, sir.

Mr. THOMAS. For this equipment? Is there any charge against it other than this?

Mr. TURPIN. Mr. Schmidt, can you speak to that?

Mr. SCHMIDT. The buildings management fund is charged $400,000 for equipment. Of course, this is the operating equipment for the buildings.

Mr. THOMAS. Is that in addition to the $733,000?

Mr. SCHMIDT. That is right, sir.

Mr. THOMAS. You have $1,100,000——

Mr. SCHMIDT. For equipment.

Mr. THOMAS. What are you going to buy with it? What is the nature of it?

Mr. SCHMIDT. This includes all of our scrubbing machines, polishing machines—all of the equipment used in the management of buildings.

Mr. THOMAS. The only item you give us any information on, you have $150,000 for replacement of cafeteria equipment and $583,000 for furniture for GSA activities. Under space management you have $18,800, and not one word. Where are you going to put your cafeteria equipment, and what is that other $583,000 for? What is your $400,000 for in your buildings management fund?

Mr. SCHMIDT. The $400,000 is for building operation and maintenance equipment, as distinguished from these other administrative items, including furniture, which is office equipment, adding machines, calculators, and desks and chairs. The $400,000 is for that kind of equipment.

Mr. THOMAS. That goes into new buildings, or what does it go into?

Mr. SCHMIDT. New buildings and existing buildings where replacements are necessary.

Mr. EVINS. There is an added cost where you have the force account. If you had the contract service, you might not have to buy this million dollars worth of polishing equipment.

Mr. SCHMIDT. We would pay for a share of it, anyway, in the contract cost. The contractor has to buy and use the equipment.

Mr. THOMAS. Gentlemen, you see we get in a lot of difficulty here. We have two or three big funds here, and there is no justification on items of $1.1 million. I do not know what can be done, Mr. Administrator. We will have to tighten up some way so you can get a better view. Apparently, you do not know what it goes for, and your staff does not have any particular idea. Of course, if you do not know, we know a great deal less. It seems that we are all dealing with figures, without having any idea to justify the figures and what it is all about.

Mr. BOUTIN. Mr. Chairman, may I speak to that?

Mr. THOMAS. Please.

Mr. BOUTIN. We have tried to put in controls, and we have to evaluate whether it costs more to control than it is worth. For instance, on travel, I require the commissioners in the central office to approve every single bit of travel that is done out of the central office. The regional directors for the respective services have to approve all of the travel that is done out of the regional offices. We use, as a matter of firm policy, motor pools wherever it is possible. We have put tight controls on class of aircraft service, for instance, going other than first class the bulk of the time. We have reduced expenses substantially there.

I have told all the services to have a firm program of modernization of office equipment over a given period of years. Either have the poor equipment still around rehabilitated or if it cannot be rehabilitated, replace it. It has a marked influence on the effectiveness of the employee himself. This does not mean that I can look at every dollar and every single piece of equipment, but we try to get the best handle on it we can.

The same thing with cleaning buildings. Everything we can automate in the long pull will save us money. The day of the broom and the mop is an expensive day. When we can clean a corridor, for instance, with a piece of equipment that somebody just has to push and one man can do the work of several people normally, this is money saved.

I think we show that with the number of square feet increase that we have in custodials.

This is all brought about by acquisition of equipment.

To be able to tell you precisely that I can identify by item even 10 percent of the total $1,100,000, I cannot, but I have to depend upon the ability of these people to use their good judgment within the framework of some guidelines.

Mr. THOMAS. Mr. Administrator, we are not fussing at you. Certainly, out of the 15 or 20 staff here, somebody ought to be able to give the committee a little concrete information. We are not saying you do not need it, but we will have to guess along with your 30 people here who cannot supply any detailed information on it. We will have to guess just as you do.

CAFETERIA EQUIPMENT

Mr. BOUTIN. How about this cafeteria equipment, Mr. Schmidt. Can you identify where that is going?

Mr. SCHMIDT. I do not have the identification here, but it is in connection with new buildings. This is equipment other than the fixed equipment that will be put in these cafeterias. It includes the tables and chairs for the dining room and the other mobile equipment that is not supplied by the contractor. This is aside from the utensils and knives, forks, and chinaware.

Mr. THOMAS. Is this in new buildings or existing buildings?

Mr. SCHMIDT. It is predominantly in new buildings which will be taken over in fiscal 1964.

SIZE AND LOCATIONS OF CAFETERIAS

Mr. THOMAS. What size are these cafeterias, and where are they located? Do you put a cafeteria in every building?

Mr. SCHMIDT. No; not in every building, sir.

Mr. THOMAS. What is the nature of the buildings in which you put the cafeterias?

Mr. SCHMIDT. Only in the larger buildings where there is not a feeding service available commercially in the neighborhood.

Mr. THOMAS. I cannot imagine where that is in the United States.

Mr. SCHMIDT. That is, commercial facilities available to handle the lunch hour traffic in a reasonable length of time and within a reasonable distance from the building. We ordinarily prefer not to put any cafeterias in the buildings.

Mr. THOMAS. Do you have a cafeteria in each of your regional office buildings?

Mr. BOUTIN. No, sir.

Mr. SCHMIDT. No. The Chicago regional office building does not have. In the Dallas building we had one and closed it out.

Mr. THOMAS. These do not go in buildings occupied by GSA proper for your field offices and for your office here, but it is in buildings you are constructing for the use and benefit of some agency?

Mr. SCHMIDT. For other agencies; right, sir.

Mr. THOMAS. Can you give us any detailed information on it?

Mr. SCHMIDT. I do not have the detailed listing of the buildings, but I can supply that.

Mr. THOMAS How did you arrive at this figure?

Mr. SCHMIDT. It was arrived at by an analysis of each of the buildings and what it would cost to equip the cafeterias that will be located in these buildings.

OPERATION OF CAFETERIAS IN GSA BUILDINGS

Mr. THOMAS. How many cafeterias do you have throughout the PBS?

Mr. SCHMIDT. I do not have the figures, sir. We will supply it for the record.

(The following information was supplied:)

At the present time there are 50 basic food service cafeterias in operation in GSA buildings.

Mr. THOMAS. Do you maintain and operate all those cafeterias? Certainly you do not operate them.

Mr. SCHMIDT. No; we do not operate them.

Mr. THOMAS. Do you maintain them?

Mr. SCHMIDT. We have to maintain the space. We do not clean the space. The cleaning is done by the contractor.

Mr. THOMAS. Who maintains the cafeterias?

Mr. SCHMIDT. That is, the building itself is maintained by GSA, but the equipment and the cleaning and the servicing of the space is done by the cafeteria concessionaire.

Mr. THOMAS. You have an item in here for equipment, $150,000, have you not?

Mr. SCHMIDT. This is the equipment that is supplied by the Government, and the Government continues to own the equipment. The operator operates the cafeteria on a management basis.

Mr. THOMAS. The Government buys the equipment for the cafeteria?

Mr. SCHMIDT. That is right, sir.

Mr. THOMAS. Then some organization operates it. Is it by contract?

Mr. SCHMIDT. By contract. We take bids for the operation of the cafeterias.

Mr. THOMAS. The contractor does what? Does he maintain the equipment?

Mr. SCHMIDT. He maintains the equipment, and he services the space. He pays the Government a franchise fee for the operation.

Mr. THOMAS. Do you amortize the equipment here?

Mr. SCHMIDT. It is not amortized.

Mr. THOMAS. Is the price the contractor pays on a break-even basis?

Mr. SCHMIDT. It is more than that, sir. Usually some small amount accrues to the Government over and above the operating expenses.

Mr. THOMAS. I have been in a good many agency buildings, some of which come under your jurisdiction, and the employees of the building have an employee committee and they run the cafeteria and they do a bangup good job of it. They set the price of the food. They do the purchasing. They pay somebody to operate it.

Mr. OSTERTAG. Do you control the prices that are charged in these cafeterias?

Mr. BOUTIN. No; we do not, in cafeterias run by employee organizations. However, under the GSI contract, all food price increases proposed by GSI must be approved by GSA. Approval is based on a survey of prices charged by comparable cafeterias in the Washington metropolitan area. In specific cases, for example, an increase caused by an increase in wages of food-service employees, the prices are adjusted in proportion to the increase in wages. In other food concession contracts outside of the Washington metropolitan area, prices usually are stated in the contract itself, or the contract provides that prices to be charged must be approved by GSA.

Mr. TURPIN. Mr. Chairman, I can tell you with respect to the contract here in the District of Columbia area, which is with GSI, Government Services, Inc., not a Government activity. They operate most of our cafeterias here in the District of Columbia area. In the new buildings, we do have to equip them initially, but then, once it is under operation by GSI, they are required by the contract to put a certain reserve aside to replace the equipment as it becomes worn out.

Mr. THOMAS. Is that the general rule throughout GSA for all the cafeterias under your jurisdiction? You equip them initially, and then turn them over to contractors, and the contractors maintain them and operate them? From there on out, they are cost-free to GSA? Is that correct?

Mr. TURPIN. I believe that is true generally. I know it is with respect to contracts we have in this area. Does that apply to the contracts we have outside?

Mr. SCHMIDT. That is true outside the District of Columbia area.

RETURN ON CAFETERIA INVESTMENT

Mr. THOMAS. Do you get back the orginal investment in the cafeteria?

Mr. SCHMIDT. Through the franchise fee, which can vary from 3 to 10 percent on gross receipts.

Mr. THOMAS. It could be. The question is, do you set up your books where you amortize over a period of x years, 10 to 15? Certainly 15 would be the longest period in which you could get back your original investment.

Mr. SCHMIDT. I do not believe the accounts are handled that way.

Mr. THOMAS. Would that not be a good business way to handle it, Mr. Administrator?

Mr. BOUTIN. Yes, it would, Mr. Chairman.

Mr. THOMAS. Can we not do it that way?

Mr. BOUTIN. We can look into it.

OPERATION OF CAFETERIAS UNDER GSI CONTRACTS

Mr. OSTERTAG. Mr. Chairman, it is difficult for me to understand or see that point. This is a matter of appropriated funds for the acquisition or purchase of these supplies and equipment. Then you lease it under a contract. First of all, there is the question of how much money we have in this whole picture, and then how much revenue is derived and where that revenue goes.

Mr. TURPIN. Congressman, with respect to the cafeterias in this area operated under this contract with GSI with which I am familiar, in new space where a cafeteria is being established for the first time, GSA provides the equipment for it, and then a contract is entered into with GSI for operating the cafeteria. Under the contract they pay all of the utility expenses, the cost of maintaining and operating the space internally, and under the contract they are required to set aside a reserve in order to replace the equipment as it is worn out. So, when that contract terminates, for example, 5 years from now, the equipment should be in as good condition as it was when the contract was made.

Mr. THOMAS. Oh, Mr. Budget Officer.

Mr. OSTERTAG. That does not answer my question.

Mr. THOMAS. I do not know anything worth less than new kitchen and cafeteria equipment unless it would be my old Ford. Mr. Administrator, would you get your staff together and go into this item and tighten it up. When you come up with some businesslike plan, will you be good enough to communicate with the committee and tell them what you have done?

Mr. BOUTIN. I would like to add one thing, Mr. Chairman. We certainly will do that. The income goes into miscellaneous receipts of the Treasury. It does not go into a revolving fund where we keep the money. It goes into miscellaneous receipts of the Treasury.

Mr. EVINS. Is this routed through the GSA?

Mr. THOMAS. You do not know whether you lose money or make money or break even. Let us put it on a business basis.

INVESTMENT IN CAFETERIA EQUIPMENT

Mr. OSTERTAG. You would not have an estimate of how much we have invested in the whole picture?

Mr. BOUTIN. In cafeteria equipment?

Mr. DALY. We will get that figure, sir.

Mr. BOUTIN. This, as I understand it, Mr. Daly, is all for new buildings.

Mr. DALY. Substantially all.

Mr. BOUTIN. FAA Building, NASA Buildings, and so forth.

Mr. DALY. And buildings out of town.

Mr. THOMAS. Is the capital investment by the Government amortized?

Mr. DALY. We are not keeping our books as the Chairman suggested, but we will take a look at it.

The gross value of our inventory as of June 30 this fiscal year was $3,733,137.

NUMBER OF CAFETERIAS IN OPERATION

Mr. THOMAS. How many cafeterias does that cover?

Mr. BOUTIN. We have 50 cafeterias in operation as of this month.

Mr. THOMAS. That is in Government owned or rented?

Mr. BOUTIN. Government owned, sir.

Mr. THOMAS. Do you have any more in leased buildings?

Mr. BOUTIN. No; that is the total.

RETURN ON INVESTMENT IN CAFETERIA EQUIPMENT

Mr. DALY. You were asking what return the Government was getting from the cafeteria operator. According to our records in fiscal year 1962 we deposited $414,339 into miscellaneous receipts in fees received from the cafeteria operators who repay us for rents and for equipment of this type.

Mr. THOMAS. Are you sure? You are paying the utilities, heat, and light?

Mr. DALY. The cafeteria operator pays the utilities into the fund. He reimburses, aside from this $414,000——

Mr. THOMAS. You mean he is on a special meter?

Mr. DALY. In some buildings he is on a special meter and in others they prorate it, but he pays the electricity and steam if we furnish it in addition to this $414,000. We deposit this in miscellaneous receipts of the Treasury.

Mr. OSTERTAG. Did you say the Government investment is $3.7 million?

Mr. DALY. Yes, sir.

Mr. BOUTIN. That is our investment at acquisition cost.

Mr. THOMAS. Which is right? You said different things.

Mr. DALY. This is the value of our inventory at acquisition cost.

PURCHASE OF $150,000 OF CAFETERIA EQUIPMENT IN 1964

You requested that we break out the $150,000—where we will spend it.

It will be spent in San Francisco, Hartford, Cincinnati, Pittsburgh, Denver, Salt Lake City, and in Washington Federal Office Building 8, Federal Office Building 9, Federal Office Building 10A, and Federal Office Building 10B. This amounts to $144,500 and we will hold a balance of $5,500 for replacement and updating.

Mr. THOMAS. Will you put that in the record, please?

Mr. DALY. Yes.

(The information supplied follows:)

THE 1964 CAFETERIA EQUIPMENT ESTIMATE

Buildings involved and estimated cost of equipment required for each is as follows:

New buildings:	
San Francisco, Federal Office Building	$10,000
Hartford, Conn., Federal Office Building	12,000
Cincinnati, Federal Office Building	10,000
Pittsburgh, Federal Office Building	15,000
Denver, Federal Office Building	10,000
Salt Lake City, Federal Office Building	12,000
Federal Office Building 8, Washington, D.C.	14,000
Federal Office Building 9, Washington, D.C.	18,500
Federal Office Building 10A and 10B, Washington, D.C.	43,000
Total	144,500
Buildings which are to be extended or remodeled and for the replacement, updating, and supplementing of existing equipment in existing buildings	5,500
Grand total	150,000

Mr. THOMAS. Are those all brandnew buildings?

Mr. DALY. These are brandnew buildings.

Mr. THOMAS. And this is the original capital investment?

Mr. DALY. Yes.

Mr. THOMAS. How many do you have there?

Mr. DALY. San Francisco, $10,000; Hartford, $12,000; Cincinnati, $10,000; Pittsburgh, $15,000; Denver, $10,000; Salt Lake City, $12,000; Federal Office Building 8, $14,000; Federal Office Building 9, $18,500——

Mr. THOMAS. How many square feet are there in these cafeterias? That figure is mighty low. What does that cover? Does it pay for steamtables or chairs and tables?

Mr. DALY. The serving lines and fixed equipment are a part of the cost of the building. This fund where we are asking $150,000 this year is for movable equipment such as the chairs, tables, slicing machines, and so on.

INSUFFICIENT RETURN ON CAFETERIA EQUIPMENT

Mr. THOMAS. You still have a capital investment of $3.7 million in all your cafeterias. If you put in your construction cost and everything it would be nearer $40 million or $50 million.

Mr. DALY. It would be in excess of that if you included fixed equipment.

Mr. THOMAS. Over a period of 10 or 15 years, are you getting enough rent on that cafeteria to amortize its cost? The answer is obviously no if you have a return of only $400,000 on it.

Mr. DALY. Well, I think we would have to admit we are not getting a complete refund on this.

Mr. THOMAS. It has been my observation these cafeterias are certainly worth a great deal to the agencies that use them.

Mr. DALY. That was our point, sir.

Mr. THOMAS. That much ought to be said for them. We were trying to find out just exactly what they are costing. It is a safe thing to say that on a day-to-day maintenance and operation they are on a break-even basis, or practically so, but when you amortize the actual cost you are not a hundred miles of doing that.

Mr. BOUTIN. Certainly not the construction cost, but I think the difference is between a half-hour lunch period or an hour or an hour and a half.

DESIGN AND CONSTRUCTION

Mr. THOMAS. Let us take a look at design and construction. Put pages 41, 42, and 43 in the record.

(The pages referred to follow:)

Design and construction

	Amount	Average employment [1]
1963	$678,000	
Change	+25,000	
1964	703,000	

[1] All employment shown under Construction Services Fund.

HIGHLIGHT

"This activity provides for a small staff responsible for overall direction of programs involving design, construction, and remodeling of Federal buildings." (From the Budget for 1964.)

The total increase in 1964 over 1963 is due to pay costs authorized by Public Law 87–793.

Total cost or estimate:

1962	$572,523
1963	678,000
1964	703,000

JUSTIFICATION

Technical direction is provided for design, construction, and remodeling of Federal buildings, including projects financed with funds transferred from other Government agencies. Services consist of (a) architectural and engineering planning; (b) preparation of initial cost estimates for proposed building projects and programs of GSA and other Government agencies; (c) maintenance of design and construction handbooks, standard details and stock specifications; and (d) providing service to Federal committees and boards dealing with building design and construction.

This activity provides financing for salaries and related expenses of 27 central office employees and 20 regional office employees engaged in the overall direction of building construction and improvement programs. Also included is $75,000 the same as for 1963, to finance the cost of making feasibility studies, developing preliminary sketches, and initial cost estimates for other Government agencies for their use in support of an appropriation for design and construction of specific projects. All employees engaged in design and construction operations are paid initially from the construction services fund, with reimbursement being obtained from this activity for the salaries and related expenses of the 47 employees engaged in overall direction and the equivalent of 11.5 man-years of services rendered by technical personnel in performing initial cost estimates, etc., for other Government agencies on a nonreimbursable basis. Salaries and related expenses of technical and administrative personnel engaged directly on approved work programs and projects are reimbursable from funds provided for such construction programs and projects.

The total design, construction, and remodeling workload for which this activity has overall direction was as follows, on December 31, 1962:

	Number of projects	Estimated improvement cost (million dollars)
Under design:		
GSA funds	642	$399.8
Other agencies' funds	927	196.6
Total	1,569	596.4
Under construction:		
GSA funds	816	337.8
Other agencies' funds	772	160.4
Total	1,588	498.2

A summary of employment and financing for all design and construction activities is presented on the following page.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation.—No personal services for this item are paid directly from appropriated funds. Such costs are initially paid from the construction services fund and are included under "Other services."

Other objects.—$703,000, of which $592,600 is to reimburse the construction services fund for salaries as follows: (1) $522,900 for 47 positions engaged in

overall direction; and (2) $69,700 for the equivalent of 11.5 man-years engaged in developing construction cost estimates, etc., for other Government agencies for which no reimbursement is received. In addition, $44,500 is to reimburse the construction services fund for personnel benefits applicable to these salaries.

(1) $13,000 for 482 days travel at $27 per day, and $500 motor pool services.

(2) $5,800 communications; $6,200 printing.

(3) $24,000 to assist in financing the President's Committee on Equal Employment Opportunity.

(4) $3,400 contractual services; $5,000 supplies; $8,000 office equipment.

OFFICE OF DESIGN AND CONSTRUCTION

Summary of average employment and personal services cost by source of financing and function

	Fiscal year 1962		Fiscal year 1963		Fiscal year 1964	
	Average employment	Personal services cost	Average employment	Personal services cost	Average employment	Personal services cost
Source of financing:						
Operating expenses, PBS	49.3	$458,080	58.5	$569,300	58.5	$592,600
Repair and improvment projects	468.7	3,648,086	472.8	3,857,000	552.3	4,689,100
Construction projects	197.0	1,621,958	233.3	2,011,700	266.5	2,394,500
Other GSA funds	7.5	55,115	10.0	78,900	10.0	82,700
Total GSA financed	722.5	5,783,239	774.6	6,516,900	887.3	7,758,900
Financed by funds of other agencies (construction, repair, etc.)	381.5	3,034,805	583.4	4,726,100	662.7	5,789,100
Total	1,104	8,818,044	1,358	11,243,000	1,550	13,548,000
Function:						
Program direction	50	488,599	59	601,000	59	626,300
Design	475	4,071,481	639	5,621,800	744	6,892,400
Estimates	18	172,977	22	221,400	32	335,500
Construction	324	2,718,091	375	3,214,500	440	3,977,100
Coordination staff	9	37,803	10	45,100	10	47,100
Schedules and services	186	953,739	208	1,118,000	220	1,230,600
Field offices	42	375,354	45	421,200	45	439,000
Total	1,104	8,818,044	1,358	11,243,000	1,550	12,548,000
Distribution:						
Central office	229.8	1,991,055	238	2,276,700	244	2,425,000
Regional offices	874.2	6,826,989	1,120	8,966,300	1,306	11,123,000
Total	1,104	8,818,044	1,358	11,243,000	1,550	13,548,000

Mr. THOMAS. Gentlemen, take a look at page 44, which gives an itemization of the other objects but there is no breakdown whatsoever on the positions. I have a longhand note written here: What are the grades of these 58 people? Where are they located, and so forth? I am not sure the figure of 58 is correct. I have written in longhand on page 41: "47 employees plus 14 others who may come out of the BM fund, makes a total of maybe 61 rather than the 58"; $678,000 was provided for this activity in 1963, and you have an increase of $25,000 for this year, making $703,000. [Reading:]

This activity provides for a small staff responsible for overall direction of programs involving design, construction, and remodeling of Federal buildings.

That differs from space management. You still have your upper crust. Space management deals with acquisition of property by lease, purchase, and exchange, and assignment and reassignment of space. This crowd deals with design. These are the construction people.

Reading an underlined sentence at the middle of page 41:

All employees engaged in design and construction operations are paid initially from the Construction Services Fund, with reimbursement being obtained from this activity for the salaries and related expenses of the 47 employees engaged in overall direction and the equivalent of 11.5 man-years of services rendered by technical personnel in performing initial cost estimates * * *

Under "Design, GSA funds," 642 projects, big, little, and everything. What part of that is done in the field and never comes to Washington?

Mr. DALY. Mr. Chairman, I think I can explain it best this way: Of the 47 people who are covered by this particular appropriation——

Mr. THOMAS. Am I right? I have 61 rather than 47. At one place you say 58, at one place 47, and I say 61. Are all three of us wrong?

Mr. DALY. No, sir. I think it is 58.5 average man-years, but when you work it out on the number of positions, I think it comes to 61.

Mr. THOMAS. Under "Design, GSA funds," you have 642 projects; other agency funds, 927; and a total under design of 1,569.

Under "Construction, GSA funds," 816 projects; other agencies' funds, 772; and a total of 1,588.

Under construction, you see the dollar marks opposite these projects. It is already in the record. It runs into money. $596,400,000 under design, GSA and other agencies. GSA is about 2 to 1. Under construction, it is about the same proportion, a total of $498,200,000 under construction; $337,800,000 by GSA funds and $160,400,000 under other agencies.

DESIGN AND CONSTRUCTION PERSONNEL

The question I ask you, Mr. Daly, is: What part of this 642 projects under design is done turnkey in the field, and what part is done in the District of Columbia by the central office by the 61 employees?

Mr. DALY. In the central office we have 27 employees covered by the appropriation we are requesting here. These 27 employees are the top architects and engineers. For example, the assistant——

Mr. THOMAS. And the other 20 are in the regional offices?

Mr. DALY. That is right.

Mr. THOMAS. Where are the green sheets on the 27 in the District of Columbia and in the field? You don't give us grade classifications, either. We would like to look at them and see the types of employees they are.

Do you have that information?

Mr. DALY. I have the information here. It is not shown in that detail on the green sheets.

Mr. THOMAS. I am positive it is not.

Mr. DALY. In the 27 in the District there is a 17, a 16, seven 15's, five 14's, two 13's, one 11, one 8, one 7, five 6's, and three 5's.

I would like to explain, Mr. Chairman, because this is a little bit confusing. We have far more people than this in the design and construction function. The majority of these people are charged to specific projects.

Mr. THOMAS. Under the big fund?

Mr. DALY. Not under buildings management fund.

Mr. BOUTIN. Construction services.

Mr. THOMAS. Individual projects. Go ahead.

Mr. DALY. The point I want to make here is that this nucleus group are the people we cannot charge by a timecard basis to any particular project.

Mr. THOMAS. This is the overall braintrust crowd.

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. These are the boys who design the cost estimate on your construction program, which we will go into soon?

Mr. DALY. That is right. Many times they prepare preliminary plans which never get into a project.

About two-thirds of these are architects and engineers, and the others are supporting personnel, such as secretaries.

Mr. THOMAS. You don't mean to give us the idea that the vast majority charged under each project are temporary?

Mr. DALY. No, sir.

Mr. THOMAS. We shall get into that soon, but how many do they number?

Mr. BOUTIN. We haven't a single consultant.

Mr. DALY. No consultants.

Mr. THOMAS. Go ahead.

Mr. DALY. The total number of positions we have in the overall design and construction function——

Mr. THOMAS. You are charging only 61?

Mr. DALY. These 47 are charged to this appropriation, but we have others that are charged——

Mr. THOMAS. Let us get a figure and stay with it. Is it 47, 58, or 61?

Mr. TURPIN. There are 47 of the nucleus people, the design chief, two assistants in each of the regions, and the others in the Central Office. There are 47 people.

Of the other people working on all of the different jobs financed by the respective construction appropriations——

Mr. THOMAS. Mr. Daly said it was 61 a while ago.

Mr. TURPIN. There are 47 people that can be specifically identified. Then, in addition, there is the equivalent of 11½ man-years.

Mr. THOMAS. I have 14. Where are they charged?

Mr. TURPIN. They number 47; plus the equivalent of 11½ man-years.

Mr. THOMAS. How many people is that; 14?

Mr. TURPIN. That is about right. They are not specifically identified that way.

Mr. THOMAS. Are they charged to the $703,000?

Mr. TURPIN. That is right. That is part of the time of people——

Mr. THOMAS. All right. We are going to use 61, 58, 47, or just pick out one figure. You pick it out.

Mr. TURPIN. Fifty-eight and a half, sir.

Mr. THOMAS. Let us make it hog round—58 or 60—whatever it is. We will say 59.

Mr. TURPIN. All right, sir.

DESIGN AND CONSTRUCTION PERSONNEL CHARGED TO PROJECTS

Mr. THOMAS. How many do you have charged against the individual construction projects?

Mr. DALY. The total number of permanent positions in design and construction, going back to 1962, is a total of 1,180; in 1963 it is 1,500, and we are asking to go to 1,600 this year. That is an increase of 100.

Mr. THOMAS. One thousand five hundred and forty are charged to the specific projects?

Mr. DALY. Yes, sir.

Mr. THOMAS. It all comes out of the big fund?

Mr. DALY. Construction services fund.

Mr. THOMAS. But these 59 or 60 here come out of the buildings management fund.

Mr. DALY. Not the buildings management fund.

Mr. THOMAS. Not charged to any specific project?

Mr. DALY. That is correct, sir.

Mr. THOMAS. What are these top-level people here? What do they do? This is the brain trust?

Mr. DALY. They are the people who prepare the overall estimates, run the entire program, make estimates for the program and, in many cases, they do preliminary design work which never gets into a project. Except for a handful of secretaries and stenographers, these are engineers of various types—mechanical, structural, and so on—and also some architects.

FINANCING OF DESIGN AND CONSTRUCTION PROJECTS

Mr. THOMAS. What part of these 642 projects is charged to the construction fund itself, rather than the repair and improvement program?

Mr. TURPIN. The answer is that it would be charged to the construction appropriation or the R. & I. appropriation.

Mr. DALY. That is what we are trying to work out.

Mr. SCHMIDT. Seventy against the sites and expenses appropriation and 563 against the repair and improvement appropriation, and 9 against other GSA appropriations, a total of 642.

Mr. THOMAS. What about the specific projects, appropriated funds for the construction of some 27 buildings? What do you charge against that?

Mr. SCHMIDT. The 27 new buildings for 1964? Some of those would be included——

Mr. THOMAS. What was the figure you gave a while ago for the total employment in construction, Mr. Turpin? It was in excess of 1,000.

Mr. DALY. 1,600.

Mr. THOMAS. How many did you count, Mr. Schmidt?

Mr. SCHMIDT. These are projects.

Mr. THOMAS. Projects and not people?

Mr. SCHMIDT. New or alteration projects.

Mr. THOMAS. You were breaking down the 642 projects under the GSA fund. I did not follow you.

OTHER OBJECTS OF EXPENSE—DESIGN AND CONSTRUCTION

What about the other objects here? You show $703,000 total of other objects. This is under design and construction, part of the operating expense.

Does this $703,000 include the salary cost?

Mr. TURPIN. Yes, sir; it does, Mr. Chaiman.

Mr. THOMAS. Of this amount, $592,600 is to reimburse the construction services fund for salaries. You have $111,000 here for other objects and $600,000 worth of salaries and benefits. Is that correct? Is that the way it breaks down?

Mr. TURPIN. That is about right.

Mr. THOMAS. $522,900 is shown next for 47 positions, then $69,700 for the other 11 or 12 people. In addition $44,500 is to reimburse the construction services fund for personnel benefits.

The remainder of $65,900 includes $13,000 for travel, $500 for the motor pool, $5,800 for communications, $6,200 for printing, $24,000 to assist in financing the President's Committee on Equal Employment Opportunity.

PBS ASSESSMENT FOR PRESIDENT'S COMMITTEE ON EQUAL EMPLOYMENT OPPORTUNITY

How does the President's Committee on Equal Employment Opportunity fit into the picture?

The $24,000 shown here could not fit in. Is this just an assessment?

Mr. SCHMIDT. That is the PBS share of this cost and it is charged here because this is the one item that involves construction.

Mr. THOMAS. How? What is the overall cost? How do you arrive at your share of the cost which is $24,000?

Mr. SCHMIDT. It is in the nature of an assessment on GSA.

Mr. THOMAS. That is the Committee headed by the Vice President.

Mr. DALY. That is correct, sir.

Mr. THOMAS. And the cost is borne by each agency?

Mr. DALY. Yes, sir. The several agencies that are concerned with this problem are assessed a certain amount.

Mr. THOMAS. This involves only equal opportunity of employment inside the Federal Government. This is not going out beyond that; is it?

Mr. DALY. Yes, sir. This is equal opportunity, in construction jobs, for example, in which the Federal Government is interested.

Mr. THOMAS. Do you have any information on what the total cost is to the Government and the agencies which are involved?

Mr. TURPIN. We do not have the information on the totals here, Mr. Chairman. The only part we have is the part assessed on GSA.

Mr. THOMAS. And that is by the Committee on Equal Employment Opportunity?

Mr. TURPIN. That is right.

Mr. THOMAS. They assess that on the theory you are a construction agency?

Mr. TURPIN. That is right, sir; construction and contracting agency.

Mr. EVINS. Do they send you a directive assessing you a certain amount and you pay it over to the Committee?

Mr. TURPIN. The financing is worked out through the Bureau of the Budget and the Department of Labor—they work out the assessment.

REPAIR SHOPS

Mr. THOMAS. How many repair shops do you have and where are they located? Don't you have a general repair shop?

Mr. BOUTIN. We have crafts in just about every region.

Mr. THOMAS. You used to have two or three good repairs shops scattered at strategic locations where you repaired furniture and everything else.

Is it in the budget?

Mr. TURPIN. We do not have repair shops for furniture operated by PBS. That is done largely by contractors.

Mr. THOMAS. You used to have it at one time, did you not?

Mr. TURPIN. Not repair shops for furniture. We have a couple of repair shops for equipment. We had one in region 3 several years ago.

Mr. BOUTIN. A substantial portion is done by prison industries.

(Discussion held off the record.)

PROGRAM PLANNING

Mr. THOMAS. What about this program planning? You show $506,000 in 1963, and a salary increase of $23,000, making it $529,000 in 1964. Insert page 45 in the record.

(The page follows:)

Program planning

Year	Amount	Average employment		
		Department	Field	Total
1963	$506,000	18.0	21.8	39.8
Change	+23,000	−0.4	−0.2	−0.6
Total, 1964	$529,000	17.6	21.6	39.2

HIGHLIGHT

"This activity provides technical guidance for Public Buildings Service real property programs in program planning, management information systems, analysis and evaluation, and policy development." (From the budget for 1964.)

The total increase in 1964 over 1963 is due to pay costs authorized by the Federal Salary Reform Act of 1962.

Total cost or estimate:

1962	$471,243
1963	506,000
1964	529,000

JUSTIFICATION

Functions under this activity involve formulating policies for long-range planning, developing management information systems, including scheduling and reporting requirements, establishing objectives and annual program goals, and the evaluation of performance against predetermined goals and objectives of approved programs. Implementation of approved plans are reviewed in the light of changing emphasis, technology, and programs, and actions are taken to effect revision of the plans as appropriate. A continual review and analysis is made of existing Public Buildings Service policies and, when necessitated by changing continuous improvement of real property program planning and evaluation.

A primary objective of this activity is to assure a coordinated approach to the

continuous improvement of real property program planning and evaluation, leading to more efficient and economical operation.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing.—$446,500 for 40 positions, distributed as follows:

	1962	1963	1964
Central office	23	18	18
Regional offices	22	22	22
Total positions	45	40	40
Average employment	38.2	39.8	39.2

Other objects.—$82,500, of which $33,500 is for personnel benefits, including $29,000 retirement contributions, $2,300 health benefits, and $2,200 group insurance.

The remainder of $49,000, or 9.3 percent of total estimate, includes—

(1) $13,000 travel based on 482 days at $27; $1,400 motor pool services; $200 transportation charges.

(2) $10,400 communications; $10,300 printing.

(3) $5,400 contractual services; $5,400 supplies; $2,900 office equipment.

Mr. THOMAS. This activity provides technical guidance for PBS real property programs in program planning, management information systems, analysis and evaluation, and policy development.

That is the language from the budget. It is a little difficult for me to understand exactly what this crowd does which cannot be done by your space people and your architectural group.

I notice this language, also [reading]:

A primary objective of this activity is to assure a coordinated approach to the continuous improvement of real property program planning and evaluation, leading to more efficient and economical operation.

I have a longhand note here: "Just exactly what do they do? What does this language mean?"

I say "See salary grades on next page."

On the next page we have the green sheet which sets this out. You have one 16 in the department, four 15's, and six 14's, and one 13, one 12.

In the field you have one 15, eleven 14's, and so forth.

You have a total of 40 in 1963 and 1964 against 45 in 1962.

What do these people do? This is a select group. Personnel compensation is $446,500 and other objects are $82,500, for a total of $529,000 in 1964.

(Discussion held off the record.)

FUNCTIONS OF PROGRAM PLANNING PERSONNEL

Mr. THOMAS. What do these people do?

Mr. DALY. Mr. Chairman, as you know, it is quite a difficult task to direct space management, design and construction, and acquisition of sites, and develop a coordinated effort so that we can really plan in advance for our programs and prevent what we call slippage, which really means inefficiency.

Mr. THOMAS. Who is the head of this division?

Mr. DALY. There is a grade 16 in the Central Office.

Mr. THOMAS. Who is the gentleman?

Mr. DALY. Mr. Kaufholz. He is an engineer by profession and was a former regional director of the Public Buildings Service. He is a well-qualified man.

Mr. THOMAS. We have no doubt about that.

Mr. DALY. To explain further, what we try to have this group do is to develop the overall plans and details so that we can get a coordinated effort by the three functions for which we are responsible, so the space management people move out on time, the design and construction people fit in with that.

They are also doing considerable work——

Mr. THOMAS. This is the group which originates business for you, then?

Mr. DALY. I would not say that, sir. Business originates in a number of different ways.

Mr. BOUTIN. Really, they keep the business going.

Mr. EVINS. One outfit acquires the sites and another does the design and planning, and still another organization sets the time schedule?

Mr. DALY. These people try to plan in advance. Private industry has the same problem, Mr. Evins, as we do. They have a terrible time and they have made great strides recently in better planning so that you eliminate the slippage and inefficiency.

One project in particular I am having these people work on at the present time is what is known as a critical path method of scheduling construction.

Industry has used this to great benefit, and government is just beginning to pick it up.

This is a technique where we can interrelate all the things that have to do with construction so that we know when we are getting off schedule in sufficient time to do something about it rather than waking up some morning and finding we are too far behind schedule.

Mr. EVINS. With a program of this magnitude all over the United States it seems you need some coordination. There might be duplication, some lag in time schedules, and so on. Each man goes ahead with his own function, but this unit looks at all of them.

Mr. DALY. This is a coordinating staff.

Mr. EVINS. And advises the Administrator?

Mr. DALY. Yes, sir.

What we have tried to do is to group people, the space people and construction people, and put them together so they have the time and incentive to plan in advance.

Mr. EVINS. Why do you need the 11 in the field? It seems most of this would be in Washington.

Mr. DALY. The 11 in the field breaks down to 1 man and a stenographer except in 1 region where they have a few more.

We try to give the regional director in the field the same sort of support we are working out in Washington because he, too, has to plan his program in the field. He has one man to whom he can turn who is responsible to him to see that all of these various functions are fitting together, that we are adhering to timetables, and that we are exploring new things.

Also these people coordinate with Mr. Turpin's people on automatic data processing.

Mr. BOUTIN. They are really the right arm of the Commissioner and the Deputy Commissioner.

Mr. EVINS. Program request for next year shows the same personnel but is up $23,000 for pay increases.

SERVICE DIRECTION

If there are no further questions we shall turn to the Public Buildings Service direction. In 1963 you have $810,000. For 1964 you ask for $32,000 increase to $842,000. Insert page 47 in the record.

(The page referred to follows:)

Service direction

Year	Amount	Average employment		
		Department	Field	Total
1963	$810,000	31.0	41.2	72.2
Change	+32,000	−0.5	−0.7	−1.2
Total, 1964	842,000	30.5	40.5	71.0

HIGHLIGHT

General direction and administration of all programs assigned to the Public Buildings Service is provided in the central office by the Commissioner, his immediate staff, and staff of an administrative officer which includes a mail-room operation. In each of 10 regions, direction is provided by a regional director for PBS, an administrative officer, and necessary stenographic assistance. Postage fees for all activities under this appropriation except "Buildings management" are included in this estimate.

The total increase in 1964 over 1963 is due to pay costs authorized by the Federal Salary Reform Act of 1962.

	1962	1963	1964
General supervision	$682,639	$775,000	$807,000
Postage fees	31,100	35,000	35,000
Total cost or estimate	713,739	810,000	842,000

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing.—$686,000 for 74 positions, distributed as follows:

	1962	1963	1964
Central office	31	31	31
Regional offices	43	43	43
Total positions	74	74	74
Average employment	66.4	72.2	71

Other objects.—$156,000 provides—

(1) $51,200 personnel benefits; including $44,600, retirement contributions; $4,000, health benefits; and $2,600, group insurance.

(2) $35,000, postage fees for all OE, PBS activities except "Buildings management."

The remainder of $69,800, or 8.28 percent of total estimate, includes—
(3) $23,000, travel based on 794 days at $29; and $2,400, motor pool services.
(4) $1,000, transportation of things; $16,000, communications.
(5) $8,200, printing; $5,400, contractual services.
(6) $10,400, supplies; $3,400, office equipment.

Mr. EVINS. You say general direction and administration of all programs assigned to the Public Buildings Service is provided in the central office by the Commissioner, his immediate staff, and staff of an administrative officer which includes a mailroom operation. In each of the 10 regions direction is provided by a regional director for PBS.

Mr. Chairman, these are the Commission's offices we are covering. They are asking for an increase of $32,000. Is this to be largely justified on the basis of the salary increase?

Mr. DALY. Pay Act.

Mr. EVINS. This is the Commissioner and his immediate staff.

In 1962 you had a total of 74 positions. In 1963 you show 74 positions. For 1964 you also have 74 positions, no increase.

In "Other objects," you have $51,000 for personnel benefits, which includes $44,600 for retirement contributions; $35,000 for postage fees, the remainder of 69,800 includes $23,000 for travel, $1,000 for transportation of things, $8,200 for printing, $5,400 for contractual services.

What is that last item in the Commissioner's office? Is it alteration of space? What is the item of $5,400 for contractual services in the Commissioner's office?

Mr. DALY. That has to do with the money we pay the Civil Service Commissioner for security clearances, our pro rata share for the health room which we pay to HEW, and some minor space alterations which come out of this appropriation.

OE, PBS PAYMENT TO BM FUND

Mr. EVINS. We have discussed the summary data. The chairman has gone into this quite thoroughly and at length.

I am a little stricken by item object class 25, other services, which jumped from $173 million to $187 million and now is projected at $209 million. This includes what? Give us a wrap-up of this. Tell us why the increase is necessary.

Mr. DALY. This is rent, cleaning, and all the things in the building management area.

Mr. BOUTIN. This goes back again to all of these custodial people we talked about.

Mr. EVINS. You said yesterday you planned to have both a force account and continue the contractual services in certain regions?

Mr. BOUTIN. Whichever was most economical; correct.

Mr. EVINS. The chairman has gone into the breakdown and pages 49 and 50 are in the record.

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Repair and Improvement of Public Buildings

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
	GENERAL SERVICES ADMINISTRATION			
12	Personnel benefits	1		
21	Travel and transportation of persons	326	450	500
	Payment to interagency motor pools	72	75	75
22	Transportation of things	10	10	10
23	Rent, communications, and utilities	161	176	191
24	Printing and reproduction	256	300	350
25	Other services	44,679	46,122	51,000
	Payment to Administrative operations fund	956	1,038	1,293
26	Supplies and materials	244	300	350
31	Equipment	615	750	1,000
32	Lands and structures	15,126	16,500	20,206
42	Insurance claims and indemnities	11	25	25
	Total, General Services Administration	62,456	65,746	75,000
	ALLOCATION TO COMMERCE, BUREAU OF PUBLIC ROADS			
11	Personnel compensation:			
	Permanent positions	2	5	
	Other personnel compensation	1	1	
	Total personnel compensation	3	6	
25	Other services: Services of other agencies	3	3	
32	Lands and structures	112	17	
	Total, Bureau of Public Roads	118	26	
	Total obligations	62,574	65,772	75,000

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
Operating costs, funded:			
1. Maintenance repair and small improvements	23,490	23,900	27,800
2. Major repairs and improvements	17,072	17,914	19,937
3. Air conditioning	1,608	1,900	2,200
4. Program direction	2,261	2,348	2,470
5. Administrative operations	956	1,038	1,293
Total operating costs, funded	45,387	47,100	53,700
Capital outlay:			
1. Maintenance repair and small improvements	795	812	957
2. Major repairs and improvements	8,485	8,908	9,913
3. Air conditioning	5,136	6,150	7,900
4. Program direction	29	30	30
Total capital outlay	14,445	15,900	18,800
Total program costs, funded	59,832	63,000	72,500
Change in selected resources [1]	2,742	2,772	2,500
Total obligations	62,574	65,772	75,000
Financing:			
Unobligated balance brought forward (−)	−5,141	−772	
Recovery of prior year obligations (−)	−264		
Unobligated balance carried forward	772		
New obligational authority	57,941	65,000	75,000
New obligational authority:			
Appropriation	58,000	65,000	75,000
Transferred from "Operation and maintenance, Army" (5 U.S.C. 630c)	84		
Transferred to "Salaries and expenses, Office of Administrator" (5 U.S.C. 630d) (−)	−143		
Appropriation (adjusted)	57,941	65,000	75,000

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $27,777,000; (1962 adjustments, −$264,000); 1962, $30,256,000; 1963, $33,028,000; 1964, $35,528,000.

Mr. EVINS. In 1963, for repair and improvement of public buildings, you were provided with an appropriation of $65 million. For 1964 you ask for an increase of $10 million, to $75 million.

(Reading:)

This appropriation provides for maintaining, repairing, remodeling, improving, and other alterations in federally owned buildings under the jurisdiction of the GSA for these purposes, except extensions and conversions estimated to cost $200,000 or more. The budget for 1964 provides for continuation of the long-range program initiated in 1957, to alleviate deterioration and obsolescence of buildings which adversely affect efficient operations of occupying agencies.

There is an estimate of $200,000, or more, for extensions. Where does that come?

Mr. BOUTIN. Under the construction appropriation.

Mr. THOMAS. It requires congressional approval.

Mr. BOUTIN. Alteration projects over $200,000 require congressional approval. These are leaving the building intact, the outside walls as they are, and rehabilitating the interior where under construction we are changing the exterior of the building through extensions, and so on.

Mr. EVINS. You had an unobligated balance brought forward of $772,169 from 1962. That would give you $65,772,000.

Increase in maintenance, repair, and small improvements shown here. The major repairs and improvements total $4,450,000. Air conditioning is $100,000.

Program direction is $22,000. Administrative operations is $255,000. The total increase is $10 million.

Mr. THOMAS. This is the best money in the entire budget.

Mr. EVINS. This is to repair Federal buildings all over the United States.

Mr. OSTERTAG. This is repair and improvement, is it not?

Mr. THOMAS. These are repairs and improvements to take care of the buildings we already have.

Mr. EVINS. That is right.

Mr. THOMAS. All of this is charged into the buildings management fund, and you operate out of this?

Mr. BOUTIN. That is right, the R. & I. maintenance repair portion.

Mr. THOMAS. What Mr. Evins talks about comes in the form of construction appropriation.

Mr. OSTERTAG. Is there an unexpended balance involved here?

Mr. BOUTIN. We will probably have a very small carryover, Congressman, at the end of June. We normally obligate close to 98 percent.

Mr. DALY. The $772,169 carried over from last year appears on page 51.

JUSTIFICATION MATERIAL—REPAIR AND IMPROVEMENT

Mr. EVINS. Place in the record, please, the table on pages 51 and 52. Also insert pages 54 through 57.

(The pages referred to follow:)

REPAIR AND IMPROVEMENT OF PUBLIC BUILDINGS

Summary reconciliation 1964 estimate to 1963 funds

1963 appropriation in annual act	$65,000,000
Unobligated balance brought forward from 1962	772,169
Comparable obligation program	65,772,169
Increase in 1964:	
Maintenance repair and small improvements	4,400,000
Major repairs and improvements	4,450,831
Air conditioning	100,000
Program direction	22,000
Administrative operations	255,000
Total increases	9,227,831
1964 estimate	75,000,000

Analysis by activities

Activities	1963	Increases	1964
1. Maintenance repair and small improvements	$24,800,000	$4,400,000	$29,200,000
2. Major repairs and improvements	27,496,169	4,450,831	31,947,000
3. Air conditioning	10,000,000	100,000	10,100,000
4. Program direction	2,438,000	22,000	2,460,000
5. Administrative operations	1,038,000	255,000	1,293,000
Total obligations	65,772,169	9,227,831	75,000,000
Financed from prior-year balance	−772,169		
Total (appropriation)	65,000,000		75,000,000

1963 appropriation	$65,000,000
Change	+10,000,000
1964 estimate	75,000,000

GENERAL STATEMENT

"This appropriation provides for maintaining, repairing, remodeling, improving and other alterations in federally owned buildings under the jurisdiction of the General Services Administration for these purposes, except extensions and conversions estimated to cost $200,000 or more. The budget for 1964 provides for continuation of the long-range program initiated in 1957, to alleviate deterioration and obsolescence of buildings which adversely affect efficient operations of occupying agencies." (From the budget for 1964.)

The buildings for which this appropriation provides funds to maintain, repair, remodel, improve and otherwise change, include (1) public buildings as defined under the Public Buildings Act of 1959 and other federally owned buildings under the jurisdiction of GSA; (2) Government-owned facilities occupied under permit from other agencies and for which GSA has space assignment responsibility; (3) buildings under the control of other departments and agencies where alterations are required in connection with the moving of such other departments and agencies from buildings then, or thereafter, to be under the control of GSA. Renovation and improvements to space occupied by the Post Office Department in Government-owned buildings and financed by POD under their postal modernization programs are excluded; however, maintenance and repairs for such space are included.

The estimate of $75 million for 1964 will provide for maintenance repair and small improvements at a nationwide average of 22 cents per net square foot, and the scheduling of major repairs and improvements and air-conditioning projects at an increase over the 1963 level. It also provides for continuation of the programs to improve PHS facilities, modernization of buildings simultaneously with the modernization program of POD, and the extension and conversion of buildings estimated to cost less than $200,000, including the conversion from special to general-purpose use of buildings released by POD and other agencies. Extension and conversion projects estimated to cost $200,000 or more are provided for under "Construction, public buildings projects."

The long-range program

Information obtained from an anlysis of building evaluation reports, developed from continuing inspections of Federal buildings and physical obsolescence which occurs each year, reveals that at the beginning of fiscal year 1963 the amount of work necessary to relieve major obsolescence and deterioration and to bring the properties up to modern standards of usefulness and improve working conditions for occupying agencies would cost $412.8 million. The tabulations on the following page show proposed phasing of the workload for the period of 1962–67 and proposed funding of the total program for that period.

Workload summary

[In millions]

	1962	1963	1964	1965	1966	1967
Backlog (beginning)	[1] $405.8	$412.8	$418.9	$417.5	$369.9	$325.9
New work generated due to physical obsolescence	66.3	68.5	69.8	73.4	77.0	80.6
Total workload	472.1	481.3	488.7	490.9	446.9	406.5
Work performed during year	59.3	62.4	71.2	121.0	121.0	121.0
Estimated backlog (ending)	412.8	418.9	417.5	369.9	325.9	285.5
PROPOSED FUNDING PROGRAM						
Repairs and improvements	$59.3	$62.4	$71.2	$121.0	$121.0	$121.0
Program direction	2.3	2.4	2.5	2.7	2.7	2.7
Administrative operations	1.0	1.0	1.3	1.3	1.3	1.3
Total	62.6	65.8	75.0	125.0	125.0	125.0

[1] Based on inventory of known projects.

APPROPRIATION LANGUAGE

For expenses, not otherwise provided for, necessary to alter public buildings and to acquire additions to sites pursuant to the Public Buildings Act of 1959 (73 Stat. 479) and to alter other federally owned buildings and to acquire additions to sites thereof, including grounds, approaches and appurtenances, wharves and piers, together with the necessary dredging adjacent thereto; and care and safeguarding of sites; preliminary planning of projects by contract or otherwise; maintenance, preservation, demolition, and equipment; [$65,000,000] *$75,000,000*, to remain available until expended: *Provided*, That for the purposes of this appropriation, buildings constructed pursuant to the Public Buildings Purchase Contract Act of 1954 (40 U.S.C. 356) and the Post Office Department Property Act of 1954 (39 U.S.C. 2104, et seq.), and buildings under the control of another department or agency where alteration of such buildings is required in connection with the moving of such other department or agency from buildings then, or thereafter to be, under the control of General Services Administration shall be considered to be public buildings.

Justification

	1962	1963	1964
(1) Maintenance repair and small improvements	$23,060,981	$24,800,000	$29,200,000
(2) Major repairs and improvements	24,012,798	27,496,169	31,947,000
(3) Air conditioning	12,256,534	10,000,000	10,100,000
(4) Program direction	2,287,388	2,438,000	2,460,000
(5) Administrative operations	956,200	1,038,000	1,293,000
Total obligations	62,573,901	65,772,169	75,000,000

This appropriation provides for repairing, remodeling, improving and other alterations in federally owned buildings under the jurisdiction of GSA for these purposes, except for extensions to buildings and conversions of space costing in excess of $200,000. Requirements in buildings are developed through analysis of current building evaluation reports based on engineering inspections of facilities. In further support of these requirements, studies have been made to ascertain the rate of physical obsolescence which occurs in federally owned buildings and facilities for which GSA has repair responsibilities. The workload generated by this obsolescence has been reflected in the workload summary through 1967. This study shows that at current cost indices physical obsolescence occurs at the rate of about $0.52 per net square foot annually, broken down as follows:

	Obsolescence rate per net square foot
Structural	$0.02910
Roofs	.00847
Grounds and approaches	.01660
Painting	.10800
External masonry surfaces	.00500
Lighting	.08420
Elevators	.03540
Heating plants	.01080
Mechanical and electrical systems	.07700
Air conditioning	.14100
Total	.51557

The obsolescence factor shown above compares favorably with rates used by private industry. For example, the report issued by the National Association of Buildings Owners and Managers for calendar year 1961 shows a depreciation rate of $0.548 per square foot of total rentable area compared with the physical obsolescence rate of $0.52 used by GSA for net assignable square feet of space.

The justification of new obligational authority requested for each activity for 1964 follows:

1. Maintenance repair and small improvements

	1962	1963	1964
Area of buildings (net square feet):			
In District of Columbia	22,860,914	23,215,914	24,694,594
Outside District of Columbia	105,624,791	109,722,486	110,738,979
Total	128,485,705	132,938,400	135,433,573
Unit cost per square feet.:			
In District of Columbia	$0.16	$0.16	$0.16
Outside District of Columbia	.18	.19	.23
Total	.18	.19	.22
Obligations:			
In District of Columbia	3,690,359	3,725,000	4,000,000
Outside District of Columbia	19,370,622	21,075,000	25,200,000
Total	23,060,981	24,800,000	29,200,000

This activity provides for recurring maintenance repair work, and minor work of all types and kinds, costing up to $10,000 per job. The proposed increase of $4.4 million will provide a nationwide average of $0.22 per net square foot, which contemplates expenditure of about $0.16 for 24.7 million square feet in buildings in the District of Columbia and $0.23 for 110.7 million square feet in building outside the District of Columbia.

The lower unit cost for the District of Columbia is caused by the predominant number of large buildings in the District of Columbia, where the work undertaken usually develops into major projects which are scheduled for accomplishment and reported by individual locations. Outside the District of Columbia, smaller buildings predominate. In many instances the total requirements at these smaller locations can be accomplished for less than $10,000. The increase in rate, from $0.19 to $0.23 per net square foot, for buildings outside the District of Columbia will provide more adequately for day-to-day maintenance requirements, and will preclude the deferral of much needed work.

A study made of private industry, institutions, universities, and State and municipal organizations revealed a requirement of $0.23 to $0.25 annually for the types of work financed under this activity. Also, the BOMA report for calendar year 1961 shows an annual rate of $0.296 per square foot for substantially comparable types of work.

Category of work	1962	1963	1964
Grounds and approaches	$1,336,712	$1,375,000	$1,600,000
Electrical systems	2,180,803	2,250,000	2,600,000
Heating systems	1,564,244	1,600,000	1,900,000
Air conditioning and ventilating systems	1,536,724	1,575,000	1,900,000
Plumbing and sewage systems	1,300,134	1,350,000	1,600,000
Elevators, escalators, and dumbwaiters	882,331	900,000	1,000,000
Structural and miscellaneous repairs	7,380,754	7,600,000	8,500,000
Painting and decorating	5,069,487	5,600,000	7,000,000
Cleaning and pointing exterior masonry surfaces	767,116	1,500,000	2,000,000
Small improvements and space adjustments	1,042,676	1,050,000	1,100,000
Total	23,060,981	24,800,000	29,200,000

2. Major repairs and improvements

	1962	1963	1964
In District of Columbia	$3,330,700	$5,050,000	$5,400,000
Outside the District of Columbia	20,682,098	22,446,169	26,547,000
Total obligations	24,012,798	27,496,169	31,947,000
Financed from prior year balance	−4,182,901	−772,169	----------
New obligational authority	19,829,897	26,724,000	31,947,000

At the start of 1962, the inventory of major work to be accomplished totaled $405.8 million, including $285.7 million for major repairs and improvements. The programs for 1963 and 1964 and projected programs for future years will permit the accomplishment of the current inventoried workload within a reasonable period and provide a start toward offsetting physical obsolescence which occurs each year as indicated in the table on page 54. Major renovation projects costing in excess of $10,000 each are selected from this total workload of urgently needed projects.

The increase from $27.5 million in 1963 to $31.9 million in 1964 will permit accelerating the accomplishment of high-priority projects. Selection is based on urgency of need, increased efficiency in operations of occupying agencies, and economies to be effected by lowered operation and maintenance costs.

In accordance with provisions of the Public Buildings Act of 1959, prospectuses have been approved or will be submitted for approval for 153 projects totaling $268.2 million. Of these projects, the estimate for 1964 includes financing in whole, or in part, for 42 projects with a total estimated cost of $46.7 million.

Following is a breakdown of major repairs and improvements by categories of work accomplished in 1962, and programed for 1963 and 1964:

Category of work	1962	1963	1964
Structural repair and replacement	$2,937,241	$3,086,000	$2,850,000
Roof repair and replacement	2,107,528	2,110,000	670,000
Grounds and approaches	985,034	650,000	530,000
Modernization of office space	2,551,949	1,542,000	4,150,000
Lighting	1,770,705	2,633,000	1,320,000
Elevators	2,068,945	2,170,000	6,010,000
Heating plants	660,771	582,000	2,310,000
Modernization of restroom facilities	76,063	454,000	270,000
Mechanical and electrical systems	2,430,674	4,720,000	2,930,000
Food handling facilities	28,524	64,000	350,000
Protection facilities	210,254	411,000	250,000
Extension and conversion	2,708,454	3,000,000	4,167,000
Disaster repairs	216,204	11,300	
Space adjustments	1,686,503	1,600,000	1,600,000
PHS facilities	1,506,684	2,000,000	2,000,000
Design and engineering supervision	2,069,260	2,462,869	2,540,000
Total	24,012,798	27,496,169	31,947,000

3. Air conditioning

	1962	1963	1964
In District of Columbia	$1,214,034	$2,680,000	$2,940,000
Outside District of Columbia	11,042,500	7,320,000	7,160,000
Total obligations	12,256,534	10,000,000	10,100,000
Financed from prior year balance	−450,000		
New obligational authority	11,806,534	10,000,000	10,100,000

The inventory of $405.8 million of major work to be accomplished at the start of 1962 included $120.1 million for air conditioning. The 1964 estimate provides for accomplishing highest-priority projects at approximately the 1963 program level. Selection is based on consideration of climatic conditions and operating efficiency of agencies occupying the buildings. A number of projects included under this activity are estimated to cost in excess of $200,000 and therefore require approval of the Committees on Public Works of the Senate and House of Representatives in accordance with provisions of the Public Buildings Act of 1959.

Mr. EVINS. We will go into the justification at the bottom of page 54. The table shows in 1962 you had maintenance and repair of $23 million, $24,800,000 for 1963, and next year you ask for $29,200,000. For major repairs the increase is up from $27,496,000 to $31,947,000 comparing 1963 to 1964.

AIRCONDITIONING BACKLOG

Air conditioning is up $100,000 from $10 million to $10,100,000.

Mr. THOMAS. You might give us a bird's-eye picture of the air conditioning. How much do you have to do?

Mr. BOUTIN. After 1964, Mr. Chairman, anticipating this amount, we would still have a backlog, as I understand it, of about $87 million. Is that correct, Mr. Daly?

Mr. DALY. That is right.

BACKLOG OF R. & I. PROJECTS

Mr. THOMAS. The rate of this expenditure is $75 million. How long will it take you to get caught up with your backlog in day-to-day maintenance?

Mr. BOUTIN. We practically never will. At this rate we would just about equal the development of these repair needs and improvement needs.

Mr. THOMAS. Put it in language we can all understand. At this rate are you not accumulating a backlog and are you not 2 or 3 years behind?

Mr. BOUTIN. Actually as of right now, at the end of this fiscal year, it will be $418.9 million behind.

Mr. THOMAS. Put that in terms of years. How many years behind is it?

Mr. BOUTIN. We are about 5½ years behind.

Mr. THOMAS. On the basis of the $75 million a year?

Mr. BOUTIN. That is right.

Mr. THOMAS. Gentlemen, this is the best money in the budget. They are taking care of what you already have.

COMPARISON OF GOVERNMENTAL AND INDUSTRIAL REPAIR COSTS

What do you spend here as compared with private industries, universities, and colleges?

Mr. DALY. We have some figures on that, Mr. Chairman.

Mr. THOMAS. Read them into the record. You are spending about 20 cents——

Mr. DALY. We are proposing to spend 22 cents a square foot in 1964 for maintenance repairs. On the average this compares with 29 cents in the experience of commercial operators.

Mr. THOMAS. Who takes care of their property best in this country—churches, industries, schools, commercial buildings, or the Government? How do we stack up with the others? It has been said churches take care of their properties about as well as anybody. Is that true?

Mr. BOUTIN. I would say no. I would say private industry.

Mr. THOMAS. How about the universities and colleges?

Mr. BOUTIN. If you were to break it down into land-grant colleges I would say they would be in first place, but if we use all educational institutions at the higher level they would place very low.

Mr. THOMAS. Lower than the Government?

Mr. BOUTIN. No; we would be at the bottom.

Mr. THOMAS. You say churches are not high on the list?

Mr. BOUTIN. No; they are not. One of the big reasons is the rate of obsolescence which is very rapid.

Mr. THOMAS. Private industry does a better job than any of the five classifications?

Mr. BOUTIN. Yes; they do.

Mr. THOMAS. What is their figure?

Mr. SCHMIDT. For maintenance repairs 29 cents a square foot.

Mr. THOMAS. Against your figure of 22 cents?

Mr. SCHMIDT. That is right.

Mr. THOMAS. Virtually 30 percent higher than Government.

INDUSTRY'S PROVISION FOR MAINTENANCE REPAIRS

Mr. SCHMIDT. The institutions you speak of normally set aside 1½ or 2 percent of replacement cost each year for maintenance repairs and major replacements and improvements.

Mr. THOMAS. What is the figure again? You have private industry putting up a building, including land cost, and so on. The building and utilities cost them $1 million. I refer to capital investment for the building itself.

What does private industry normally set aside a year, what part of that $1 million, for maintenance?

Mr. SCHMIDT. About 1½ percent for overall maintenance and repairs.

Mr. THOMAS. What does the Government set aside? This is the appropriation where you take care of Government property. What is this figure?

Mr. SCHMIDT. To do the total job, both major replacements and improvements, we estimate it would take 51 cents a square foot per year to keep up our properties. The 22 cents I spoke of are the maintenance repairs, day-to-day repairs.

Mr. THOMAS. Against that figure you say private industry spends 29 cents?

Mr. SCHMIDT. 29 cents against the 22 cents.

Mr. BOUTIN. The 22 cents is a real improvement, Mr. Chairman.

Mr. THOMAS. We have been picking it up and doing better every year.

Mr. BOUTIN. That is right.

Mr. THOMAS. Mr. Evins asked you a while ago about your carryover. Do you have any unobligated funds which will be carried over?

Mr. BOUTIN. We anticipate we will obligate about 98 percent of the total appropriation.

Mr. THOMAS. You can't do much better than that.

Mr. BOUTIN. Two percent results from cases where we may be in a joint program with Post Office and it is held up.

Mr. THOMAS. Mr. Evins.

OVERALL INVESTMENT IN FEDERAL BUILDINGS

Mr. EVINS. I wanted to ask the Administrator the total overall investment in Federal buildings under his jurisdiction.

Mr. BOUTIN. At acquisition cost, construction cost?

Mr. EVINS. Present-day values.

Mr. BOUTIN. We couldn't supply that. We are working on a pilot program with the Department of the Interior right now to supply that for a committee of Congress. That will mean up-to-date appraisals, which will take a lot of doing.

Mr. EVINS. Off the record.

(Discussion held off the record.)

Mr. EVINS. You had acquisition value?

Mr. BOUTIN. That is right, but not present-day value.

Mr. THOMAS. Does the inventory you publish show the acquisition value of all the property?

Mr. BOUTIN. Initial cost.

Mr. OSTERTAG. Is it the responsibility of GSA to make these determinations and to keep an inventory?

Mr. THOMAS. It was an act of Congress.

(Discussion held off the record.)

Mr. THOMAS. Is the catalog you print worth the money you spend on it, some $60,000 a year?

Mr. TURPIN. We get a lot of activity and request for it. There is considerable interest by some of the committees on the Hill, and also we get a number of requests from the States for this information.

ACQUISITION COST OF REAL PROPERTY UNDER GSA JURISDICTION

Mr. EVINS. Overall what is the acquisition value?

Mr. TURPIN. $59 billion for the real property.

Mr. EVINS. Percentagewise how much are you spending on repair and improvement?

Mr. TURPIN. Mr. Ostertag, the other book was just recently published.

Mr. BOUTIN. Off the record.

(Discussion held off the record.)

Mr. EVINS. The Administrator has testified that the acquisition costs of Federal buildings and Federal properties and real estate under his management and direction is calculated to be $59 billion. How much are we spending percentagewise to maintain this $59 billion Federal investment from deterioration and obsolescence?

Mr. SCHMIDT. That figure, I think, relates to the total inventory.

Mr. EVINS. I refer to that.

RATIO OF MAINTENANCE REPAIR TO REPLACEMENT COST

Mr. SCHMIDT. The only figure we have for the 4,900 buildings that are repaired under this appropriation is an estimated replacement value of $3½ billion.

Mr. EVINS. For the 4,900 buildings repaired under this appropriation?

Mr. SCHMIDT. $3½ billion, for those buildings; yes.

Mr. EVINS. How much are you spending percentagewise to maintain these buildings?

Mr. SCHMIDT. We have been spending at the rate of $65 million last year, and we are asking for $75 million this year, so this is just about a little over 1½ percent, 1½ to 2 percent.

Mr. EVINS. Against obsolescence?

Mr. SCHMIDT. That is right. This we equate to be the wearout rate each year.

Mr. EVINS. The chart on page 53 is interesting.

REPAIR AND IMPROVEMENT BACKLOG

You had over $400 million in 1962 in the way of backlog in repair and improvement. You are doing only about $50 million.

In 1967, if you continue the present program, $125 million will be expended on this work and the backlog will be reduced a little over half.

Repair and maintenance work is going up and the backlog is declining correspondingly.

Mr. BOLAND. What did you ask the Bureau of the Budget for in this particular activity?

Mr. SCHMIDT. I believe we requested $100 million.

Mr. BOUTIN. And projected $125 million after fiscal 1964.

Mr. EVINS. There is an interesting chart at the bottom of page 55 showing maintenance repair and small improvements in the District of Columbia and outside the District.

REPAIR PROJECTS INSIDE AND OUTSIDE THE DISTRICT OF COLUMBIA

Mr. THOMAS. Here you have some information in the tables. Can you put your finger on one figure, inside and outside the District of Columbia, not in terms of square footage but how many actual projects you will touch with this appropriation next year?

Mr. SCHMIDT. On major improvements and repairs in the District of Columbia we propose to undertake 20 projects totaling $5.4 million, and outside the District 149 projects totaling $26,547,000.

In air conditioning in the District of Columbia we propose to do 9 projects totaling $2,940,000 and outside 37 projects totaling $7,160,000.

Mr. THOMAS. What about minor repairs?

Mr. SCHMIDT. On the minor repairs I do not have the number of projects because this would run into the thousands where we would expect to spend $4 million in the District of Columbia and $25,200,000 outside the District of Columbia.

Mr. THOMAS. Would you say the total number of projects is 1,000, big, little, inside and outside?

Mr. BOUTIN. More than that, Mr. Chairman.

Mr. SCHMIDT. I would say 2,000 to 3,000.

Mr. THOMAS. That is the type of information we need. It seems to me the cost of getting the job done in the way of salaries and expenses and other objects is a little bit high.

Mr. EVINS. Other objects is shown on page 59.

ADMINISTRATIVE COSTS FOR R. & I.

Mr. THOMAS. You have administrative operations here, $1,293,000, program direction $2.4 million. You have there in the neighborhood of $4 million. Is that all of your administrative costs? Is that a correct figure?

Mr. TURPIN. The sum of those two would be the total of it all, which would be about $3.7 million.

Mr. THOMAS. You administer all that work for about 5 percent? The remainder actually goes into hardware?

Mr. TURPIN. Into actual work and repairs and maintenance of buildings.

Mr. THOMAS. I am not trying to put words in your mouth, but what is the administrative cost? You set out a category of administrative operations. That is your fund.

Mr. TURPIN. The administrative operations, which is 1.7 percent of the total. Then the $2.4 million would be about 3 percent, so it is about 4.7 percent.

Mr. THOMAS. What percentage is that of your total $75 million?
Mr. TURPIN. Just under 5 percent.
Mr. THOMAS. That is not too bad, is it?

OTHER OBJECTS OF EXPENSE—R. & I.

Mr. EVINS. Turning to other objects we have a chart on page 59 which does not give the breakdown of personnel.

Travel is up to $500,000 from $450,000.

Significantly enough there are no changes in personnel benefits. I wonder why we have that. I thought personnel benefits were up all along. They are not shown here.

Mr. TURPIN. Personnel benefits go along with the personal services costs which in this case would be in the Buildings Management and Construction Services funds.

Mr. EVINS. Rents and utility services and communication services goes from $161,000 in 1962 to $190,000 in 1964. These items go up constantly.

Printing and reproduction is $255,000, $300,000, and then $350,000.

Other services is next. This is a catchall. It goes from $45.6 million to $47.1 million to $52.2 million. Tell us again why the increase in other services. Why is this necessary?

Mr. TURPIN. That is the cost for repairs and maintenance. That is because of the increase in the appropriation from $65 million in 1963 to proposed $75 million for 1964.

Mr. EVINS. The equipment has increased from $614,000 in 1962 to $1 million in 1964. Did we cover that earlier? This is new equipment which would be reinstalled in buildings to be repaired?

Mr. DALY. Under item 31?

Mr. EVINS. Yes.

Mr. DALY. That is right. That equipment is replacement equipment, not included in contract specifications, such as water coolers, portable as distinguished from central air-conditioning units, and so forth.

Mr. EVINS. Lands and structures, $16 to $20 million. You acquire lands for extensions of buildings?

Mr. DALY. That is right. However, most of this involves capitalized structural improvements.

Mr. EVINS. We shall place this chart on page 59 in the record and also the chart at page 60.

(The material referred to follows:)

REPAIR AND IMPROVEMENT OF PUBLIC BUILDINGS—OTHER OBJECTS

Personal services required for program direction, design, and construction activities, and staff services are initially financed under the "Buildings Management," "Construction Services," and "Administrative Operations" funds, respectively. Provision for reimbursing these funds is included in this estimate under "25 Other services."

Classification by objects

	Actual, 1962	Program, 1963	Request, 1964
Personnel compensation: Departmental, field			
11 Total personnel compensation			
Other objects:			
12 Personnel benefits	$560		
21 Travel	326,005	$450,000	$500,000
Travel (motor pool)	71,607	75,000	75,000
22 Transportation of things	9,674	10,000	10,000
23 Rents and utility services	32	1,000	1,000
Communication services	161,090	175,000	190,000
24 Printing and reproduction	255,866	300,000	350,000
25 Other services	45,640,871	47,169,169	52,293,000
26 Supplies and materials	244,526	300,000	350,000
31 Equipment	614,980	750,000	1,000,000
32 Lands and structures	15,237,794	16,517,000	20,206,000
42 Insurance claims and indemnities	10,896	25,000	25,000
Total other objects	62,573,901	65,772,169	75,000,000
Total obligations	62,573,901	65,772,169	75,000,000

SUMMARY STATEMENT ON "OTHER OBJECTS" FOR 1964

21 *Travel and transportation of persons, $575,000.*—$500,000 for 18,519 days travel at $27 per day in connection with administration of this program, engineering surveys, supervision of construction, etc., and $75,000 for motor pool services, principally in connection with general and special inspections of Federal buildings.

22 *Transportation of things, $10,000.*—Mainly for shipments of equipment to construction sites.

23. *Rents, communications, and utility services, $191,000.*—$80,000 for penalty mail, $110,000 for telephone and teletype services, and $1,000 for standby utility services and equipment while certain replacement work is in progress.

24 *Printing and reproduction, $350,000.*—$325,000 for reproduction of drawings and specifications and $25,000 for reproducing standard forms, including bidding documents, job orders, etc.

25 *Other services, $51 million.*—$45,305,000 for contractual repair, replacement, and improvement work, except for a nominal sum for repairs to office equipment, etc., and $5,045,000 for design and construction services initially financed from the construction services fund, and $650,000 for program direction and administration initially financed from the buildings management fund.

25 *Payments to administrative operations fund, $1,293,000.*—For administrative operations necessary to support this program.

26 *Supplies and materials, $350,000.*—Except for a nominal amount for office supplies, this amount is for purchase of construction supplies and materials.

31 *Equipment, $1 million.*—For equipment replacement not included in contract specifications.

32 *Land structures, $20,206,000.*—For improvements to buildings and equipment including purchases of land to accommodate extensions to buildings, driveways, and parking areas.

42 *Insurance claims and indemnities, $25,000.*—For payment of tort claims.

NUMBER OF R. & I. PROJECTS INSIDE AND OUTSIDE THE DISTRICT OF COLUMBIA

Mr. THOMAS. You have done an excellent job in setting out 12 and 15 pages of repair projects by State, and the information is perfect. This is the kind of information we need.

Give us a total here. We will not put all this information in the record. Give us a total inside and outside the District of Columbia,

major, minor, and air conditioning by numbers. We came to a horseback opinion a while ago that during fiscal 1964 in all categories you will handle about 2,000 or 3,000 projects. Give us an exact figure, please. That will tell the story.

(The information requested follows:)

Analysis of repair and improvement funds and projects—Distribution by inside and outside the District of Columbia

	1962		Estimate, 1963		Estimate, 1964	
	Number	Amount	Number	Amount	Number	Amount
Maintenance repair and small improvements:						
In the District of Columbia	160	$3,690,359	160	$3,725,000	160	$4,000,000
Outside the District of Columbia	4,740	19,370,622	4,740	21,075,000	4,740	25,200,000
Total [1]	4,900	23,060,981	4,900	24,800,000	4,900	29,200,000
Major repairs and improvements:						
In the District of Columbia	49	3,330,700	39	5,050,000	20	5,400,000
Outside the District of Columbia	388	20,682,098	298	22,446,169	149	26,547,000
Total	437	24,012,798	337	27,496,169	169	31,947,000
Air conditioning:						
In the District of Columbia	16	1,214,034	11	2,680,000	9	2,940,000
Outside the District of Columbia	76	11,042,500	70	7,320,000	37	7,160,000
Total	92	12,256,534	81	10,000,000	46	10,100,000

[1] Represents small improvements and recurring maintenance repairs to approximately 4,900 Government-owned buildings under control of GSA.

NOTE.—The projects and/or buildings indicated above include small paint jobs up to construction jobs involving a total of some 10,000 this fiscal year.

Mr. THOMAS. Gentlemen, let us get lunch and return at 1 o'clock. We shall commence with the construction program at that time.

Construction, Public Buildings Projects

Program and financing

[In thousands of dollars]

	Costs to this appropriation					Analysis of 1964 financing			
	Total estimate	To June 30, 1961	1962 actual	1963 estimate	1964 estimate	Deduct selected resources and unobligated balance, start of year	Add selected resources and unobligated balance, end of year	Appropriation required, 1964	Appropriation required to complete
Program by activities:									
1. Construction	1,324,971	94,732	72,997	130,000	165,000	316,508	316,061	164,553	546,181
2. Extension and conversion	60,275	88	3,282	10,000	15,000	24,403	16,815	7,412	15,090
3. Acquisition	37,373	37,373							
4. Site acquisition	119	119							
5. Design and supervision	51	51							
Total program costs funded	1,422,789	132,363	76,279	140,000	180,000	340,911	332,876	171,965	561,271
Change in selected resources [1]			2,582	150,000	40,000				
Total obligations			78,861	290,000	220,000				
Financing:									
Unobligated balance brought forward (−)			−65,888	−175,973	−66,929				
Unobligated balance carried forward			175,973	66,929	18,894				
New obligational authority (appropriation)			188,946	180,956	171,965				

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $121,400,000; 1962, $123,982,000; 1963, $273,982,000; 1964, $313,982,000.

Mr. THOMAS. Gentlemen, will the committee please come to order?

Let us make a study of "Construction, public buildings projects." Let us put in the record pages 86 and 87. Follow that with the appropriation language and the tables on pages 91, 92, and 93.

(The material referred to follows:)

Summary reconciliation of 1964 estimate to 1963 funds

1963 appropriation in annual act	$180,955,600
Decrease in 1964	—8,990,600
1964 estimate	171,965,000

Analysis by activities

Activities	1963	Decrease	Increase	1964
1. Construction	$274,800,000	$76,400,000		$198,400,000
2. Extension and conversion	15,200,000		$6,400,000	21,600,000
Total obligations	290,000,000	76,400,000	6,400,000	220,000,000
Financed from balances of prior years	−109,044,400			−48,035,000
Appropriation or estimate	180,955,600			171,965,000

1963 appropriation	$180,955,600
Change	—8,990,600
1964 estimate	171,965,000

GENERAL STATEMENT

"This appropriation provides for financing (*a*) construction of new public buildings, and (*b*) extension and conversion of existing structures where individual project costs exceed $200,000. Expenses for related site acquisition, design, and supervision are provided for under "Sites and expenses, public buildings projects." Provision is made in the estimate for fallout shelters where appropriate. From 1959 through 1963 appropriations totaling $689,553,000 have been made for construction.

Summary of funded and unfunded program

	"Number of projects	Improvement cost (in millions)
1. Buildings completed and occupied	45	$94.4
2. Buildings purchased	21	37.4
3. Under contract as of Dec. 1, 1962	34	284.7
4. Contracts to be awarded by July 1, 1964	77	273.0
Total, funded program	177	689.5
Estimate for 1964	33	172.0
Unfunded, including 77 projects at $184,000,000 to be submitted to Public Works Committees, 1st sess., 88th Cong	109	561.3
Total, funded and unfunded program	319	1,422.8

"The recommended program for 1964 provides for 33 new projects and an increase in 1 project totaling $171,965,000 for improvements.

"1. *Construction.*—Under the regular construction program the estimate for 1964 provides for 27 new projects and 1 increase amounting to $164,553,000.

"2. *Extension and conversion.*—Through major extension and conversion projects, existing buildings are brought up to standards and expanded to make them suitable for current and future needs of the tenant agencies. The estimate for 1964 includes six such projects at an estimated cost of $7,412,000. In-

dividual projects involving expenditures of more than $200,000 are financed under this appropriation while those costing less are financed under 'Repair and improvement of public buildings.'" (From the budget for 1964.)

The estimate of $171,965,000 for 1964 is applicable to selected high-priority projects for which site and expense funds have been appropriated and completion of design will permit contract awards during fiscal year 1964. The estimate includes $2,788,000 for fallout shelter protection in line with the national shelter policy. Such shelter protection is included for only those projects where authorized in the project prospectus approved by the Committees on Public Works of the Senate and House of Representatives.

A summary of obligations by activity for 1962–64, amounts appropriated for 1962 and 1963, and the estimate for 1964, follow:

	1962	1963	1964
1. Construction	$72,696,881	$274,800,000	$198,400,000
2. Extension and conversion	6,164,369	15,200,000	21,600,000
Total obligations	78,861,250	290,000,000	220,000,000
Balances forwarded (net)	+110,085,250	−109,044,400	−48,035,000
Appropriation	188,946,500	180,955,600	171,965,000

APPROPRIATION LANGUAGE

For an additional amount for expenses, not otherwise provided for, necessary to construct public buildings projects and altar public buildings by extension or conversion where the estimated cost for a project is in excess of $200,000 pursuant to the Public Buildings Act of 1959 (73 Stat. 479), including *fallout shelters therein* and equipment for such buildings, [$180,955,000] *$171,965,000*,[1] and not to exceed $500,000 of this amount shall be available to the Administrator for construction of small public buildings outside the District of Columbia as the Administrator approves and deems necessary, all to remain available until expended: *Provided*,[2] That the foregoing amount shall be available for public buildings projects at locations at maximum construction improvement costs (excluding funds for sites and expenses) as follows:

[Post office and courthouse, Juneau, Alaska, $11,482,600;]

[Border station (construction and alteration), Nogales, Arizona, $997,500;]

[Federal office building, Bakersfield, California, $1,311,000;]

[Border patrol station, Calexico, California, $288,800;]

[General Services Administration stores depot, Denver, Colorado, $5,505,200;]

[Post office and Federal office building, Wallingford, Connecticut, $836,000;]

[Post office and courthouse, Gainesville, Florida, $2,178,300;]

[Post office and courthouse (construction and alteration). Marianna, Florida, $518,700;]

[Federal office building, Tampa, Florida, $2,254,300;]

[Post office and Federal office building, Macon, Georgia, $3,605,400;]

[Border station, Porthill, Idaho, $116,800;]

[Courthouse and Federal office building, Chicago, Illinois, in addition to the sum heretofore provided, $5,000,000;]

[Post office and Federal office building, Seymour, Indiana, $455,000;]

[Post office and courthouse (construction and alteration), Owensboro, Kentucky, $280,200;]

[Federal office building (construction and alteration), New Orleans, Louisiana, $1,225,500;]

[Post office and courthouse (construction and alteration), New Orleans, Louisiana, $3,447,500;]

[Post office and Federal office building, Augusta, Maine, $2,470,000;]

[Border patrol sector headquarters, Houlton, Maine, $318,200;]

[Federal office building, Boston, Massachusetts, $27,114,900;]

[1] Insertion of a specific authorization for construction of fallout shelters in certain buildings is intended to insure compliance with provisions similar to those contained in sec. 303 of the Independent Offices Appropriation Act, 1963, if reenacted.

[2] Changes in the first proviso merely substitute new projects and amounts to reflect construction starts proposed for 1964, and increase the amount for one previously approved project—Federal Office Building, Baltimore, Md.

[Post office, Webster, Massachusetts, $390,400;]
[Post office and courthouse (construction and alteration), Grand Rapids, Michigan, $700,100;]
[Border station, Pigeon River, Minnesota, $281,200;]
[Post office and courthouse, Clarksdale, Mississippi, $1,164,700;]
[Federal office building, Kansas City, Missouri, $29,816,700;]
[Courthouse and Federal office building, Billings, Montana, $5,342,800;]
[Post office and courthouse (construction and alteration), Grand Island, Nebraska, $305,900;]
[Post office and courthouse, North Platte, Nebraska, $1,444,000;]
[Courthouse and Federal office building, Reno, Nevada, $3,310,700;]
[Post office and courthouse, Concord, New Hampshire, $3,187,200;]
[Courthouse and Federal office building, Albuquerque, New Mexico, $6,932,-100;]
[Post office and courthouse, Fayetteville, North Carolina, $2,022,500;]
[Post office and courthouse (construction and alternation), Grand Forks, North Dakota, $308,700;]
[Post office and Federal office building (construction and alteration), Canton, Ohio, $2,503,200;]
[Post office and courthouse (construction and alteration), Oklahoma City, Oklahoma, $754,300;]
[Post office Federal office building and courthouse, Tulsa, Oklahoma, $8,958,-500;]
[Post office and Federal office building, Westerly, Rhode Island, $469,300;]
[Post office and courthouse, Pierre, South Dakota, $2,482,300;]
[Post office and Federal office building, Sioux Falls, South Dakota, $2,565,-000;]
[Post office and courthouse, Winchester, Tennessee, $860,900;]
[Post office and Federal office building, Austin, Texas, $9,257,700;]
[Border station, Del Rio, Texas, $285,000;]
[Border patrol sector headquarters, Del Rio, Texas, $437,000;]
[Post office and courthouse (construction and alteration), Houston, Texas, $1,323,300;]
[Courthouse and Federal office building, Ogden, Utah, $4,493,500;]
[Post office and courthouse, Montpelier, Vermont, in addition to the sum heretofore provided, $509,000;]
[Health, Education, and Welfare office building (construction and alteration), Charlottesville, Virginia, $2,062,400;]
[Post office and Federal office building, Richland, Washington, $7,716,800;]
[Post office and courthouse, Cheyenne, Wyoming, $4,664,500;]
Border patrol sector headquarters, Tucson, Arizona, $344,000;
Post office and courthouse, Pine Bluff, Arkansas, $2,391,000;
Courthouse and Federal office building, Fresno, California, $5,400,000;
Post office and courthouse, Newnan, Georgia, $1,155,000;
Courthouse and Federal office building, Boise, Idaho, $7,505,000;
Federal office building, Gary, Indiana, $1,156,000;
Courthouse and Federal office building, New Albany, Indiana, $950,000;
Courthouse and Federal office building (construction and alteration), London, Kentucky, $310,000;
Post office and courthouse, Bangor, Maine, $3,653,000;
Federal office building, Baltimore, Maryland, in addition to the sum heretofore provided, $13,706,000;
Post office and courthouse (construction and alteration), Detroit, Michigan, $3,990,000;
Post office and courthouse, Hannibal, Missouri, $1,832,000;
Post office and Federal office building, Independence, Missouri, $1,647,000;
Post office and Federal office building, Bozeman, Montana, $2,255,000;
Border patrol sector headquarters, Havre, Montana, $343,000;
Post office and courthouse (construction and alteration), Helena, Montana, $1,596,000;
Courthouse and Federal office building, Las Vegas, Nevada, $4,772,000;
Federal office building (construction and alteration), Laconia, New Hampshire, $368,000;
Post Office and Federal office building, Portsmouth, New Hampshire, $2,396,000;
Post office and Federal office building (construction and alteration), Carlsbad, New Mexico, $353,000;

Post office and Federal office building, Clovis, New Mexico, $830,000;
Courthouse and Federal office building, Roswell, New Mexico, $1,595,000;
Federal office building, Cleveland, Ohio, $41,223,000;
Post office and Federal office building (construction and alteration), Providence, Rhode Island, $795,000;
Federal office building, Charleston, South Carolina, $2,903,000;
Post office and Federal office building, Alamo, Tennessee, $336,000;
Post office and Federal office building, Alice, Texas, $601,000;
Federal office building, Forth Worth, Texas, $15,664,000;
Post office and Federal office building, Pasadena, Texas, $1,094,000;
Border patrol sector headquarters, Swanton, Vermont, $309,000;
Border patrol sector headquarters, Blaine, Washington, $325,000;
Border patrol sector headquarters, Spokane, Washington, $316,000;
General Services Administration, Federal records center, metropolitan area, District of Columbia, $12,705,000;
Federal office building, numbered 5, District of Columbia, $36,656,000;
Provided further, That the foregoing limits of costs may be exceeded to the extent that savings are effected in other projects, but by not to exceed 10 percentum [: *Provided further,*[1] That not to exceed $6,500,000 for the foregoing appropriation may be used for partial construction of the authorized public building project at Baltimore, Maryland].

JUSTIFICATION

This appropriation provides for financing (*a*) construction of new public buildings and (*b*) extensions and conversions of existing structures where the cost of extension or conversion exceeds $200,000, pursuant to the Public Buildings Act of 1959. Expenses for related site acquisition, design and supervision are provided under "Sites and expenses, public buildings projects."

From 1959 through 1963 appropriations for construction totaled $689,553,100. Exhibit B reflects the application of these funds to 177 specific projects, shows the year in which they were funded, and current status of the projects. The following summarizes the status of the funded program:

	Number of projects	Improvement cost
1. Buildings completed and occupied	45	$94,396,330
2. Buildings purchased	21	37,373,377
3. Under contract (through June 30, 1962)	28	216,768,142
4. Additional contract awards scheduled during 1963	57	200,884,900
5. Contract awards scheduled for 1964	26	42,473,350
Total	177	681,896,099
Reserve for contingencies		7,657,001
Total, funded program	177	689,553,100

[1] The last proviso authorizing funds for partial construction of the project at Baltimore, Maryland, has been deleted as no longer appropriate.

The estimate of $171,965,000 for 1964 provides for 27 new building projects and 6 extension and conversion projects. Specific projects for which financing is requested in 1964 are set forth below. Amounts included for fallout protection pursuant to the national shelter policy are identified.

	1964 estimate		
	Total	Basic Improvement cost	Fallout shelter
I. CONSTRUCTION			
Arizona: Tucson, BPS Headquarters	$344,000	$344,000	
Arkansas: Pine Bluff, post office-court	2,391,000	2,306,000	$85,000
California: Fresno, court-Federal office building	5,400,000	5,271,000	129,000
Georgia: Newnan, post office-court	1,155,000	1,100,000	55,000
Idaho: Boise, court-Federal office building	7,505,000	7,356,000	149,000
Indiana:			
Gary, Federal office building	1,156,000	1,100,000	56,000
New Albany, court-Federal office building	950,000	902,000	48,000
Maine: Bangor, post office-court	3,653,000	3,547,000	106,000
Maryland: Baltimore, Federal office building (increase)	13,706,000	13,454,000	252,000
Missouri:			
Hannibal, post office-court	1,832,000	1,757,000	75,000
Independence, post office, Federal-office building	1,647,000	1,579,000	68,000
Montana:			
Bozeman, post office, Federal-office building	2,255,000	2,170,000	85,000
Havre, BPS Headquarters	343,000	343,000	
Nevada: Las Vegas, court-Federal office building	4,772,000	4,651,000	121,000
New Hampshire: Portsmouth, post office Federal-office building	2,396,000	2,309,000	87,000
New Mexico:			
Clovis, post office: Federal office building	830,000	830,000	
Roswell, court: Federal office building	1,595,000	1,530,000	65,000
Ohio: Cleveland, Federal office building	41,223,000	40,710,000	513,000
South Carolina: Charleston, Federal office building	2,903,000	2,811,000	92,000
Tennessee: Alamo, post office: Federal office building	336,000	320,000	16,000
Texas:			
Alice, post office: Federal office building	601,000	567,000	34,000
Fort Worth, Federal office building	15,664,000	15,443,000	221,000
Pasadena, post office: Federal office building	1,094,000	1,042,000	52,000
Vermont: Swanton, BPS Headquarters	300,000	300,000	
Washington:			
Blaine, BPS Headquarters	325,000	325,000	
Spokane, BPS Headquarters	316,000	316,000	
District of Columbia:			
Federal office building No. 5	36,656,000	36,200,000	456,000
GSA Federal Records Center	12,705,000	12,705,000	
Unspecified small projects	500,000	500,000	
Total, construction (27 new projects and 1 increase, plus $500,000 for small projects)	164,553,000	161,788,000	2,765,000
2. EXTENSION AND CONVERSION			
Kentucky: London, court: Federal office building	310,000	310,000	
Michigan: Detroit, post office, court	3,990,000	3,990,000	
Montana: Helena, post office, court	1,596,000	1,596,000	
New Hampshire: Laconia, Federal office building	368,000	345,000	23,000
New Mexico: Carlsbad, post office: Federal office building	353,000	353,000	
Rhode Island: Providence, post office: Federal office building	795,000	795,000	
Total, extension and conversion (6 projects)	7,412,000	7,389,000	23,000
Total, 1964 estimate (33 new projects and 1 increase)	171,965,000	169,177,000	2,788,000

The foregoing projects together with other approved projects which have been funded for sites and expenses but unfunded for construction are reflected in exhibit A. This exhibit shows the year in which the projects were funded for sites and expenses and the estimated contract capability date. Exhibit B lists the construction projects funded for sites and expenses and improvement costs and also shows the respective years in which these funds were appropriated and the current status of each project.

The following tabulation shows the totals for exhibits A and B, appropriations made to date, estimate for 1964, and unfunded requirements for the program:

[In millions]

	Sites and expenses	Improvement cost	
		Number	Amount
Approved projects:			
Exhibit A, funded for sites and expenses only	$60	63	$490
Exhibit B, funded for sites and expenses and improvements	119	177	689
Total, approved projects	179	240	1,179
Less: Appropriations for improvements:			
Fiscal year 1959		69	154
Fiscal year 1961		35	165
Fiscal year 1962		26	189
Fiscal year 1963		47	181
Total through 1963		177	689
Estimate for 1964		33	172
Total appropriations and 1964 estimate		210	861
Projects funded for sites and expenses, unfunded for construction		30	318
Add:			
Projects approved by Public Works Committees, unfunded for sites and expenses		2	59
Estimated additional projects to be submitted to Public Works Committees, 1st session, 88th Congress		77	184
Total, unfunded program		109	561

Mr. THOMAS. You have an estimate of $171,965,000 for these public buildings projects, against $180,955,600 last year. [Reading:]

This appropriation provides for financing (*a*) construction of new public buildings and (*b*) extension and conversion of existing structures where individual project costs exceed $200,000. Expenses for related site acquisition, design, and supervision are provided for under "Sites and expenses, public buildings projects." Provision is made in the estimate for fallout shelters * * *.

I have $2,788,000. Is that correct?

Mr. TURPIN. Yes.

STATUS OF CONSTRUCTION PROGRAM

Mr. THOMAS. From 1959 through 1963 appropriations totaling $689,553,000 have been made for construction.

At the rate we are going, when will we finish the original program and what was the goal of the original program instituted under your predecessor, Mr. Floete, about 5 or 6 years ago?

Mr. BOUTIN. In 1959, Mr. Chairman, the identified backlog of need was $3 billion. We are just over the halfway mark, but we are within 3 or 4 years of having completed the large projects. We shall be able to get more and more into small projects which now largely go on lease.

Mr. THOMAS. This table is interesting. Buildings completed and occupied, 45. Then the cost figure is shown, $94.4 million. Buildings purchased, 21, at a cost of $37.4 million. Under contract as of December 1, 1962, 34, at a cost of $284.7 million. Contracts to be awarded by July 1, 1964, 77, at a cost of $273 million. Total, funded and unfunded program, 177 buildings, at a cost of $689.5 million.

CONSTRUCTION ESTIMATE FOR 1964

Then we come up with the estimate for 1964. In round figures, what is it? $172 million, including 33 buildings.

Unfunded including 77 projects at $184 million to be submitted to Public Works Committees, 1st session, 88th Congress. Along with that goes sites and planning. That is 109 more, is it not?

Then, assuming the Public Works Committees and the Congress go along on the budget request, you will have funded and in process of construction in calendar year late 1964, 319 buildings, either completed or under construction.

Mr. BOUTIN. Yes.

Mr. THOMAS. That will be at a cost of $1,422,800,000. Have you any plans beyond these?

FUTURE CONSTRUCTION PROGRAM

Mr. BOUTIN. Yes, sir. In addition to these that we have identified here, we have the program that we are working out now for subsequent years.

Mr. THOMAS. We shall just touch on what you are going to submit to the legislative committee for next year, and then beyond that is when you will have either funded or under construction or fully constructed, 319 projects. What have you beyond that in the works?

Mr. BOUTIN. We do not have it identified, Mr. Chairman.

Do you wish to go into that any further?

Mr. SCHMIDT. We do not have specific projects identified but on the basis of our original projection as to the probable need for public buildings construction of $3 billion, we would figure we are about halfway at this point.

Mr. BOUTIN. In authorized projects.

Mr. SCHMIDT. That is right.

Mr. THOMAS. When did you come up with that figure of $3 billion?

Mr. BOUTIN. 1959.

Mr. THOMAS. You mean that was the overall advanced thinking, we will say?

Mr. BOUTIN. That is correct.

Mr. THOMAS. Has it changed since 1959?

Mr. BOUTIN. I would say it has not.

Mr. SCHMIDT. No; it is still a good figure.

Mr. BOUTIN. Our thinking has not changed on it, Mr. Chairman. Our projections have not changed. This was a pretty good estimate.

MODERNIZATION OF VETERANS' HOSPITALS

Mr. THOMAS. What are we spending on this modernization of the VA hospital program? Do you remember that figure? I have a round figure in my mind of over a billion dollars.

Mr. OSTERTAG. You mean over a period of years?

Mr. THOMAS. It is $1.3 billion now. That is for VA hospitals alone.

Mr. BOUTIN. This would not enter into our figure.

Mr. THOMAS. I understand. I am just trying to get a comparative figure. I assume the VA program may include a few regional office buildings. I am not sure it does, though.

Mr. OSTERTAG. That comes out of GSA.

Mr. THOMAS. We have a program for the Veterans' Administration alone of $1.3 billion. On a comparative basis, this seems to be relatively small, does it not? The hospital system is 176. This is, in round figures, about 320 buildings, and you are halfway through, so let us say 640 or 650 buildings at a cost of $3 billion, against the VA with 175 to 180 buildings at a cost of $1.3 billion.

Mr. JONAS. Hospital construction is more expensive.

Mr. THOMAS. We figure $20,000 or $22,000 a bed. Yes, it is considerably more expensive.

GSA CONSTRUCTION PROJECTS IN AND OUTSIDE THE DISTRICT OF COLUMBIA

Mr. EVINS. Of the 319 projects, how many are in the District and how many are outside the District?

Give us a breakdown in the District and outside the District on these projects.

Mr. THOMAS. I do not remember seeing that in the justifications. Supply it for the record.

(The information supplied follows:)

Breakdown of 319 construction projects between inside and outside the District of Columbia

	Number	Improvement Cost
		(In thousands)
Inside the District of Columbia:		
Federal Office Building No. 8		$18,623
Federal Office Building No. 9		14,755
Federal Office Building No. 10		30,516
GPO field plant		1,510
Naval Weapons plant (C. & R.)		2,000
U.S. Court of Claims, Customs and Patent Appeals Building		6,375
119 D St., NE.		1,651
1724 F St., NW.		559
Federal Office Building No. 5		36,656
FBI Building		47,735
GSA Federal Records Center		12,705
Geological Survey		30,115
Housing and Home Finance Agency Building		29,000
Labor Building		38,037
National Science Foundation Building (E. & R.)		4,222
Total, inside the District of Columbia	15	274,459
Outside the District of Columbia	304	1,148,330
Total program	319	1,422,789

Mr. THOMAS. Let us get to the prospectuses. These are wrapup, turnkey cost estimates for each of these projects, 27 in number, is that correct?

They are in-house estimates made by your staff of how many people?

Mr. BOUTIN. Fifty-nine, Mr. Chairman.

Mr. THOMAS. These tables are quite interesting. Your projects over $200,000 must have legislative authorization. They are set out.

Let us take a look at some of these projects. Beginning on page 91: (Reading:)

The estimate of $171,965,000 for 1964 provides for 27 new building projects and 6 extension and conversion projects. Specific projects for which financing is requested in 1964 are set forth below. Amounts included for fallout protection pursuant to the national shelter policy are identified.

FALLOUT SHELTERS IN FEDERAL BUILDINGS

You are spending $2,788,000 for fallout shelters. What does that figure out? Five percent of the total construction cost of each building? Do you have that breakdown?

Mr. SCHMIDT. Overall about 1⅔ percent of the total improvement cost.

Mr. THOMAS. Is that 1⅔ percent new construction, or what?

Mr. SCHMIDT. That is the relationship of the fallout shelter to the basic improvements.

Mr. THOMAS. Here is Portsmouth, N.H., Federal Office Building and post office. The total cost is $2,396,000, of which you show $87,000 set aside for fallout shelter. What is the nature of these fallout shelters? What extra, if anything, are you doing in the construction of the building? Where are they located? Are they located on the roof or the middle of the building, the basement, or where?

Mr. SCHMIDT. They are usually located in the basement of the building, trying to utilize space in the building with its structural features that lend themselves——

Mr. THOMAS. You say usually. Are you putting them any place except in the basement?

Mr. SCHMIDT. In the basement.

Mr. BOUTIN. Exclusively?

Mr. SCHMIDT. Exclusively.

FEATURES PROVIDING FALLOUT PROTECTION

Mr. THOMAS. What are you doing to this specific project which I mentioned, Portsmouth, where you are spending $87,000 for the fallout shelter, of the $2,396,000 estimated total cost? What are you doing to the basement with that $87,000?

Mr. SCHMIDT. We would equip the space with proper ventilation and electrical equipment for its use as a shelter over a period of 2 or 3 weeks. It would provide space for equipment and food items, and medical supplies. We do very little as far as the structure itself is concerned, except in the design of the building initially to attempt to take advantage of the protective features that are ordinarily supplied in the structure itself and the basement area.

Mr. THOMAS. What are the added features you will put to the normal basement in one of these new buildings?

Mr. SCHMIDT. There would have to be a separate electrical system, a separate ventilating system——

Mr. THOMAS. Stay with the ventilating system. What are you going to do to it?

Mr. SCHMIDT. Provide for a standby system of periodic changes of air——

Mr. THOMAS. Fans, you mean?

Mr. SCHMIDT. Fans, a mechanical ventilating system.

Mr. THOMAS. Have they any filters in them?

Mr. SCHMIDT. It would have filters; yes, sir.

Mr. THOMAS. What is the nature of the filter?

Mr. SCHMIDT. I cannot speak to the specifics on that. The criteria on this are generally established through the Department of Defense, its civil defense unit.

Mr. THOMAS. What you are doing here, then, for your $87,000, is virtually buying equipment, and you are not changing the plans and specifications of the building. You are not making the walls any thicker. You are arranging duplicate electrical systems, more and heavier wires, I guess. They will be charged from a generator located right there, a separate generator.

Mr. SCHMIDT. To operate independently.

Mr. THOMAS. Do you pay for the generator with that $87,000?

Mr. SCHMIDT. That is part of the cost.

Mr. THOMAS. Do you pay for the fans and the exhaust?

Mr. SCHMIDT. And the installation of duct work.

Mr. THOMAS. Do you put in extra water equipment, toilets, and so forth?

Mr. SCHMIDT. To some extent; yes.

Mr. THOMAS. What part of your $87,000 on this project would go for toilet facilities and water facilities, bathing?

Mr. SCHMIDT. I do not have the detail on the estimate itself. This estimate was prepared by our engineers on the basis of the criteria supplied by Defense, tying it in with the design of the building.

Mr. THOMAS. What group designed this and came up with these figures?

Mr. SCHMIDT. Part of our design and construction group.

Mr. THOMAS. Those are the 59 people we agreed on, is that correct?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. This is an in-house estimate. Is the chief designer here?

Mr. DALY. No, sir, he is not present.

Mr. THOMAS. Did you and Mr. Schmidt help out with these cost estimates here?

Mr. DALY. They were prepared by the design and construction division, sir, and were submitted to us for approval.

Mr. THOMAS. What will the Portsmouth, New Hampshire, Post Office and Federal Office Building cost on a square footage basis? Do you have the square footage there?

Mr. SCHMIDT. Yes, sir. The basic building, without the fallout shelter, will be $21.18 per square foot gross area; with the fallout shelter, $21.98.

Mr. THOMAS. How many square feet in the building, and how many people will it accommodate? You have an area of approximately 109,000 square feet. Net assignable space, 77,400 square feet. What becomes of that 37,000 square feet?

Mr. SCHMIDT. The net square footage is the space that actually will be used by the occupants of the building. The difference between the net and the gross is the space for mechanical and air-conditioning equipment, heating equipment, public corridors, the lobby, the stairways, the elevator hoistways, et cetera, all of which is deducted from the gross area to come up with the actual work space to be assigned.

RATIO OF NET TO GROSS SPACE

Mr. THOMAS. The administration has been criticized that there is too much lost space in these buildings. How much space do you set aside? Is my figure correct here? You have 109,000 square feet, and you have usable space of 77,400 square feet. How many do you lose for closets, hallways, ductways, and so forth? Almost 30 percent of the total building, is it not?

Mr. SCHMIDT. It amounts to about one-third. The gross here is measured from the outside to the outside walls, all floor areas. There are some losses, of course, in your construction elements. Then the other items I mentioned. We have standard widths of corridors, depending upon whether they are primary or secondary. Generally, the lobby is determined on the basis of the number of tenants in the building. The architect in designing has to allow sufficient space for his equipment and for the servicing of the building.

STANDARDIZED BUILDING DESIGN

Mr. THOMAS. In this list of 27 construction projects, I count here 15 or 20 post offices and courthouses that are to serve the same general purpose. Do you have a common plan and design for all of these buildings of the same nature which are to serve the same purpose?

Mr. BOUTIN. We do not, Mr. Chairman, except for the smaller projects. For the list of, I think 86, that is before the Public Works Committee now, we have 20 alternate plans, prototype designs. When you get up to a building of this size, it is almost impossible to do it and save any money doing it. We could perhaps have the outside look pretty much the same, but the interior would depend on radical differences in use. Some have court space, some do not have court space. Some have space use that is peculiar to that particular building that would make an awful difference in trying to standardize the design. But on the small ones, we can do it and save a barrel of money and an awful lot of time.

Mr. THOMAS. The largest buildings are usually post offices, courthouses, and office buildings all wrapped up in one, are they not?

Mr. BOUTIN. A lot of them are; yes, sir.

Mr. THOMAS. Most of them are. You have the post office on one or two floors, a half dozen floors for courts and court offices, and then various agency offices even above them. Why cannot that building be standardized and save some money, just as you said you save it on small buildings?

Mr. BOUTIN. The post office requirements are one of the biggest problems.

Mr. THOMAS. Is there any difference in handling the mail for a city of half a million against a city with a million population, except in the amount of space required? The operation is practically the same, is it not?

Mr. BOUTIN. We would not save any money, Mr. Chairman, if we just tried to make the appearance the same. It would have to be in the design of the building itself.

Mr. THOMAS. I am talking about the actual usable functional space. What is the difference betwen a post office in Chicago and one in St.

Louis or one in Baltimore? They are all big cities. They all handle the same general type of mail. They serve the same purpose. Why could not a standard plan be developed for them? You may have to suit the postmaster of the particular area. He may want to have one machine over here and another wants it over there. Why could not the general design be the same for these big buildings that have anywhere from 6 to 10 courtrooms in them?

Mr. SCHMIDT. I think to a degree we do standardize various elements in the buildings, but when you get into the larger structures, each has to be adapted to the particular site. You do not have the same foundation conditions. You do not have the same site sizes. This is what forces you into an individual design, even though in an individual design you do incorporate a lot of standard provisions, on court layout, for instance.

Mr. THOMAS. You are talking about outside appearance. That is what the Administrator was talking about a while ago. Of course, I guess what is on the inside is governed by what the outside is, too.

Mr. BOUTIN. You run into big problems, too, Mr. Chairman, by weather conditions and the requirements, and the availability of materials. For instance, speaking of my own State, in Concord, N.H., if we built a stainless steel building or aluminum-frame building, I might as well head for Shanghai. You have to adapt to the local conditions.

Mr. THOMAS. You have to use local material. That makes sense. Nobody objects to that.

Mr. BOUTIN. It would make a big difference in the design of the building.

Mr. THOMAS. Spell that out. That is the outside walls you are talking about.

Mr. BOUTIN. That is right, the outside walls.

Mr. THOMAS. A courtroom is a courtroom, regardless of whether the outside of the wall is made out of tin, brick, or granite.

Mr. BOUTIN. The courtroom itself, yes; that is true. It would be just exactly the same, depending upon the size of court that was required. That would depend a lot on caseload.

Mr. THOMAS. Mr. Jonas, you and Mr. Evins are familiar with the construction field. What do you think about this proposition?

Mr. EVINS. In New York, you go up with a skyscraper design. In Arizona, you have plenty of land to spread it out in ranch-type architecture. I imagine in Florida it would be different.

Mr. BOUTIN. That is true. You get into different terrain and soil conditions that really dictate the type of building you are to construct.

Mr. EVINS. We have a county in my district that producers crab orchard stone, and the courthouse, the jail, the post office, the bank, are all built out of crab orchard stone. They use the native stone.

Mr. THOMAS. That makes sense. It will last a thousand years, will it not?

What has that to do with the internal arrangement of that building?

INVESTIGATIVE REPORT ON SPACE UTILIZATION

We have read this language to you before, but we think it makes a lot of sense on space utilization. This is a report to the Committee

on Appropriations of the House on public buildings construction. It says, on space utilization [reading]:

The usable floor area assigned to an agency divided by the gross area gives the space efficiency ratio. For Government office buildings an efficiency ratio of 80 to 85 percent in buildings not exceeding 12 stories and 75 to 80 percent in buildings exceeding 12 stories is recommended by a Federal Construction Council report published by the Building Research Advisory Board of the National Academy of Sciences-National Research Council.

The National Research Council is part and parcel of the big Academy. Here in the first little building we pick up, you have 30 percent set aside. This report says it ought to be what? At least 75 or 80 percent.

Mr. SCHMIDT. I think this becomes a matter of definition and what you include in the net area for comparison with the gross. In the commercial buildings, for instance, in a single tenant occupancy, you pay for everything on a floor except the stair wells, the elevator hoistways, the elevator lobby. All the rest you pay for. You are actually paying for the circulation areas, which in themselves amount to 10 to 12 percent of the space.

Mr. THOMAS. What about this statement?

Space efficiency ratios in the 15 buildings examined by the staff ranged from 58 to 75 percent, with an average of 66 percent for all buildings studied.

A big contractor who does his own design and construction and owns quite a few, could do it, I believe, 15 or maybe 20 percent cheaper than the Government. He would build a different type of building, more usable, with less space waste. When he got through, he would save that much.

LIFE EXPECTANCY OF BUILDINGS

Mr. BOUTIN. Mr. Chairman, I think the difference is that most of the private contractors build their buildings on a life expectancy of 20 or 25 years. We build our buildings for 50, 60, or 65 years. We readily admit we try to build them better than we would if we were a private builder for investment.

Mr. THOMAS. May I interrupt you, Mr. Administrator. Are you not in error on that 20 years? In the first place, these buildings are bonded for 20 or 25 years. The mortgage is for 30 years. Do you mean to say the lending agencies and insurance companies will lend 30- to 35-year money on a 20-year building, which would fall down before it was paid for?

Mr. BOUTIN. I think you will find, by and large, Mr. Chairman, anybody in private investment figures any investment that cannot liquidate itself inside of 20 years is not a very good investment. As a businessman outside of government, I never would invest in a building that could not pay for itself.

Mr. THOMAS. Then we had better send you over to FHA, because they are building a lot of multi-family buildings on 25- and 30-year mortgages.

Mr. BOUTIN. But this is rental.

Mr. THOMAS. I know we have one or two programs of 50 years, have we not? Many of these people tell us the buildings are good for 75 and 100 years if you just maintain them. You are not talking about residences now. You are talking about office buildings.

Mr. BOUTIN. College buildings, for instance, college buildings under HHFA go up to 35 years. These buildings probably will be there 100 years from now. They are well built. Look at any of these buildings.

Mr. OSTERTAG. How about these big apartment houses?

Mr. BOUTIN. The apartment houses, I would judge, probably are in excess of 20 years. Probably 30 years would be more accurate. If you look at any of the office buildings, space comparable to what we are building, a prudent investor is getting rid of his investment inside of 25 years, in my judgment.

Mr. THOMAS. Of course, in this country, this town or in anybody's town that you go to, I would not make any guess on the number of them, but you can find large numbers that are 50 and 60 and 75 years of age. Go up in good old New England and you will find a lot of frame houses 75 years of age. I have stopped and admired a lot of them. Some of those office buildings are that old and are still usable. As a matter of fact, the Federal Government owns some that have been occupied 75 years.

(Off the record.)

Mr. JONAS. I do not understand how building for longer occupancy or for longer life would diminish the usable space within the outer walls. That would be reflected in stronger foundations and that sort of thing, but it would not cause you to increase closet space or corridor space. We are talking about extraordinarily wide corridors and passageways, entries, and things of that sort.

Mr. BOUTIN. I was talking more to the difference in square foot costs, Congressman, than I was to the ratio of net assignable to gross. I think one has some bearing on the other, perhaps not so much by a comparison of what a private investor would build per se as to the type of building, but the type of space which is required. For instance, in Federal buildings, FOB 6 is a very good example where you have fairly wide lobbyways which you need there properly to service the public.

Mr. THOMAS. Let us see what this report says about Federal Office Building 6. Will you let me interrupt here at this point?

Mr. BOUTIN. Surely.

ASSIGNABLE SPACE PER PERSON

Mr. THOMAS. On the point of usable space, assignable space per person, here is what the report says:

> This report also recommends an allowance of 80 square feet of office space per person, assuming private offices for not more than 10 percent of agency personnel and other features in general office areas which are common to Government practices. On the basis of net usable area for an entire building, including conference rooms—

they take up a lot of area—

> dining area, etc., the report recommends a range of 100 to 145 net square feet per person.

You exceed that when you take in conference rooms, dining rooms, and everything else, do you not? (Reading:)

> The National Office Management Association recommends assigning 60 to 80 square feet per person for general office area, and 200 square feet for administrative private offices.

That is 10 by 20.

We mentioned FOB 6. Here is what the report says:

For FOB 6, Washington, the allowance is 177 square feet of office space per person—more than double the recommendation of 80 square feet per person by the Federal Construction Council. For 10 of the buildings surveyed, which had courtroom or post office spaces—

now we are getting back to the building we have under consideration here, which is the Portsmouth, N.H. post office and Federal office building—

net usable area per occupant ranged from 148 to 243 square feet, with an average of 184 square feet.

GSA CONTROL SPACE UTILIZATION

I will continue reading the report:

GSA officials advised the staff GSA has no effective control over space utilization by Federal agencies.

That was last year. We have it now by the Executive order.

They—

meaning GSA officials—

emphasized that the role of GSA is essentially to serve the needs of these agencies and not to enforce their utilization of space.

That is out the window, too, by virtue of the Executive order. You can do that now. (Reading:)

These officials agreed that the space utilization in FOB 6, Washington, indicated considerable underpopulation and that the assignment of 177 square feet of office space per person was certainly excessive. The inability of GSA to control utilization of space in FOB 6 is indicated by the fact that the building was originally designed to house 2,900 occupants and is actually housing 1,873.

WASTED SPACE IN BUILDINGS

Here is another pretty good criticism which has some teeth in it and is to the point. We would like your comment on this statement, Mr. Administrator. (Reading:)

Large lobbies were designed mainly for esthetic effect. The Chicago building and the New York Customs Courts Building have lobbies occupying almost the entire floor—29,000 and 20,400 square feet, respectively. In some of the buildings the lobbies are two stories high, thereby reducing the second floor area substantially, as much as 3,300 square feet in one project. A driveway through the interior of FOB 9, Washington, occupies 10,000 square feet of first-floor space.

Gentlemen, is that not good, sound advice they are giving you there?

Mr. BOUTIN. I do not agree with it, Mr. Chairman.

Mr. THOMAS. We can say anything we want to in here. Start talking. Where is it wrong?

Mr. BOUTIN. Let me give you an example. As far as the utilization of office space in a building, our average, nationwide, today is 151 square feet per person. Anybody can make a report critical of someone else if they use apples and oranges and bananas and try to make believe that everyone is seeing the same thing, but this is not so. You have to have a standard form of measurement.

As far as the question of lobby space and post office space and court space, the Federal Government is the only one that builds post offices, so we have no one to compare them with. We have to build accord-

ing to what the Post Office says they need. We have to put in lookout galleries, which take up space but they say they need them for internal control. We have been talking to them about that. The best that we can, with the best ability that we have, we have to fit these needs within the amount of money that is available and the amount of money that it is prudent to spend.

We can take any given building. FOB 6. What is your square foot utilization there right now?

Mr. DALY. The square foot utilization in FOB 6, for that portion occupied by NASA is 164.8, and by HEW and NASA combined it is 160.6. But you may remember, Mr. Boutin——

Mr. THOMAS. That is twice what this report says it ought to be.

Mr. DALY. The point I was going to make is this, and I spoke to you about this the other day, Mr. Boutin, we have been letting these agencies go along for a while because they had informed us that they had approved personnel increases that were going into this building, and had they materialized, it would considerably reduce this ratio. We have blown the whistle on them and told them now——

Mr. THOMAS. Do you mean to say HEW and Space have not gone up?

Mr. DALY. But not in this building. The point I am trying to make is that they said, "Don't force us to crowd up, because we have new personnel coming in here." So, we let them go along with that, but we have issued instructions to our regional office here in Washington to allow them no more space anywhere until we can recapture some of the space or until they can crowd up and show better utilization of the space they have.

SPACE UTILIZATION IN FOB 6

Mr. OSTERTAG. What is the figure in FOB 6 as compared to capacity and utilization?

Mr. BOUTIN. They give it in people.

Mr. OSTERTAG. I have in mind, capacity and utilization.

Mr. THOMAS. I will read that again.

For FOB 6, Washington, the allowance is 177 square feet of office space per person, more than double the recommendation of 80 square feet per person by the Federal Construction Council.

Mr. OSTERTAG. Yes, but the capacity that is being used is 1,800?

Mr. THOMAS. 2,900 capacity against 1,873.

Mr. OSTERTAG. How do you account for that?

Mr. BOUTIN. If I understand this criticism correctly, they say including cafeterias, hearing rooms, meeting rooms, all of this extra space, it should be around 140-some-odd square feet, Mr. Chairman. We are saying that our total here is 160. So, we are a long way from double. That is why it is very easy to fall into a trap on space utilization.

Mr. THOMAS. Nobody is falling into a trap.

Mr. OSTERTAG. Mr. Administrator, that indicates a ratio of 177 square feet, does it not?

Mr. THOMAS. Yes.

Md. BOUTIN. We are down from that, down around 160.

Mr. THOMAS. Read your figures again, Mr. Daly. As of what date are those figures? You gave figures for HEW and NASA in FOB 6.

Mr. DALY. This was June 30, 1962, sir. Overall, 160.6, sir. Roughly 160½ square feet.

Mr. OSTERTAG. That does not jibe with the 177.

Mr. DALY. What was the date of that report, sir?

Mr. THOMAS. This is older, December 1961.

Mr. DALY. I would imagine, sir, that the change downward is because both NASA and HEW have recruited and put more people in the building.

SPACE FOR VARIOUS TYPE PERSONNEL

Mr. SCHMIDT. Mr. Chairman, that 80 square feet per person seems to be more closely related to the tolerances for certain types of positions. We check this out quite closely with the industry. Ordinarily, the allowance for repetitive clerical positions is 60 square feet for their workspace. This goes on upward, depending upon the nature of the job that the individual does. We have taken a typical 500-employee organization and reduced this to space requirements. With minimum tolerances, it comes out to 140 square feet per person average office use. This is allowing for the top director, the supervisor positions, some professionals who do not supervise and can use a smaller office, and finally you get down to the clerical positions allowance of 60 square feet.

Mr. THOMAS. It is stated in this report the executive office space in privately owned buildings is 200 square feet.

Mr. OSTERTAG. They take that into account.

May I point out, if I understood the report correctly, the 177 square feet ratio or basis is applicable to the total capacity of 2,900, rather than the actual occupancy as of today.

Mr. DALY. I am not familiar with the report, sir. I do not know.

Mr. OSTERTAG. Do you agree with that Mr. Chairman?

Mr. THOMAS. Yes.

COMPARISON OF GOVERNMENT AND PRIVATE BUILDINGS

Mr. Administrator, is it not a generally accepted fact that private industry constructs buildings anywhere from 10 to 15 or 20 percent cheaper than the Government?

Mr. BOUTIN. We are not really comparing the same type of buildings, Mr. Chairman. That is the problem in giving you a valid answer to this question. Our life expectancy is so much longer.

Mr. THOMAS. Why should the Government do so much better than private industry? After all, private industry is helping to pay the bills. What is the purpose of it?

Mr. BOUTIN. I think we would have to take a 50-year period, Mr. Chairman, and compare what private industry would do with a site and the development of that site into a building.

Mr. THOMAS. You go into an ordinary small town, like the one in which I was born and reared, and the post office building is by far the most expensive building in town. I think you will find that to be true in almost any town from 4,000 population up to 15,000 or 20,000. The most expensive building in town would be the Federal building. Why is that?

Mr. BOUTIN. I think the prudence of that, Mr. Chairman, is shown by the fact that we are able, when the post office moves out of a building they may have been in 40 or 45 years, to go in and remodel that building at minimum cost and look for another 40 years' occupancy. It takes almost an earthquake to knock them down. They are there for a long time. We can build them cheaper.

Mr. OSTERTAG. I suppose, Mr. Administrator, there is a variation, too, in the actual utilization of the building. For example, just recently I visited the site for your St. Petersburg Federal Building, and in looking over the design or the plans, I noticed that considerable space, in fact, I believe 70 percent, is to be utilized by the Veterans' Administeration. In addition to that, you include a clinic. Space for a clinic cannot be measured in terms of numbers of people.

Mr. BOUTIN. And post offices are particularly bad for this, and courts are particularly bad for this.

Mr. OSTERTAG. I only mention that as an example.

Mr. THOMAS. I think you have three special examples, as you brought out. One is clinics. Another is the post office. It makes "John Public" mad to try to get up to one of those windows and not be able even to get in the building, let alone to the window. Of course, courtroom ceilings must be high, and so forth. So you have special problems which are peculiar to the Government which you do not find in industry.

Mr. BOUTIN. Customs space, too, is difficult to evaluate that way, Mr. Chairman.

PINE BLUFF (ARK.) POST OFFICE AND COURT

Mr. THOMAS. Let us look at the justification for these buildings. Here is a sizable one at Pine Bluff, Ark., post office and court. Do you not have some office space, too? Do you just have the courts and the post office?

Mr. BOUTIN. Post office, court, U.S. marshal, Department of Agriculture, Civil Service Commission——

Mr. THOMAS. Then your terminology here ought to be post office, court, and Federal office building, to cover them all.

Mr. BOUTIN (continuing). Congressional office, Defense, GSA HEW, Justice, Labor, Selective Service System, Treasury, and VA in that building.

Mr. THOMAS. What is the justification on that building? How many square feet is it to have?

Mr. BOUTIN. The total number of square feet, gross, is 108,500. Net assignable is 74,000. The ratio is 68.2 percent.

Mr. THOMAS. Could you not increase that? What takes up that? The lobby for the post office, the courtrooms, or what?

Mr. BOUTIN. Lobby, courtrooms, corridor space, particularly outside of the courtrooms, space around the U.S. marshal's office.

Mr. THOMAS. How many courtrooms do they have?

Mr. BOUTIN. Do you have the number of courtrooms?

Mr. SCHMIDT. Judging from the amount of space that would be a single court unit.

Mr. THOMAS. That occupies what part of a floor? One-half?

Mr. SCHMIDT. The whole court unit with rotated activities would take about 9,600 square feet.

Mr. THOMAS. That is one-tenth of it, then, in round figures.

Mr. SCHMIDT. A little better than 10 percent.

Mr. THOMAS. The court occupies the whole floor, then.

Mr. SCHMIDT. That is right.

Mr. THOMAS. The clerk's office, marshal's office, probation office, judge's chambers, grand jury room, courtroom, and all.

Mr. BOUTIN. The post office takes four-sevenths of that building, Mr. Chairman, a large part of it.

Mr. THOMAS. How many floors to the building?

Mr. BOUTIN. The building has not been designed as yet. In fact, we are just completing the architectural selection. So I cannot tell you how many floors we will have.

Mr. THOMAS. Your design people lay down the pattern, and then turn it over to an architect to fill in the detail, saying "We have to have so many square feet, so many to a courtroom, so many to this and that." You assign the usable square feet to each one of the different classifications, to the post office, to courtroom, or what?

Mr. BOUTIN. Yes, we do. This is where our space management people and the design and construction people work very closely together, so we know precisely.

Mr. THOMAS. What is the justification for the construction of the building? What rent are you paying? What are you going to save? What does it figure out per square footage cost?

Mr. BOUTIN. The square footage cost of this building, Mr. Chairman, exclusive of fallout shelter, is $21.25.

Mr. THOMAS. Is it in this prospectus?

Mr. SCHMIDT. The unit costs are not in the prospectus, sir.

Mr. THOMAS. Why leave that very valuable information out?

Mr. SCHMIDT. We have not been following the practice of putting it in the prospectus.

Mr. THOMAS. Of course, we can figure it out. It might take a little time, but I guess we can do it.

Mr. BOUTIN. I would like to say, Mr. Chairman, we have revised our system of prospectuses, and if you will notice, the ones we have before Public Works now contain an awful lot more detail than they have heretofore.

Mr. THOMAS. That is good, is it not?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. What is it a square foot?

Mr. BOUTIN. $21.25, exclusive of fallout shelter.

Mr. THOMAS. What will that cost extra? 1½ percent did you say?

Mr. BOUTIN. Just about; 1⅔ percent overall average.

SAVINGS AT PINE BLUFF

Mr. THOMAS. What are you going to save by constructing this building?

Mr. BOUTIN. Over a 50-year period, Mr. Chairman, the estimated saving is $2,767,094.

Mr. THOMAS. What rent are you paying in the city now?

Mr. BOUTIN. Right now we are paying a total of $30,071.

Mr. THOMAS. You are not paying any rent on the post office and you are not paying any rent on the existing court building, are you?

Mr. BOUTIN. No, sir.

Mr. SCHMIDT. There are no courts in the existing buildings. That is just a post office and Federal office building.

Mr. THOMAS. Does the court sit in the town?

Mr. SCHMIDT. It is now authorized to sit in Pine Bluff, and we have a request from the courts for space.

Mr. THOMAS. Can you rent courtroom space?

Mr. SCHMIDT. No, sir.

Mr. BOUTIN. We share courtroom space in some locations, Mr. Chairman. We have a building that is no longer required by the Federal Government except for courts, and the local county wants to buy it. We make arrangements, for perpetuity of need for the Federal court, to sit in the same chambers as does the county court.

(Off the record.)

Mr. SCHMIDT. In Pine Bluff, you have the matter of court facilities, the expansion of the Post Office Department, and then the other Federal agencies. The existing building cannot accommodate their requirements nor can the building be enlarged to include them.

BASIS OF DETERMINING SAVINGS

Mr. THOMAS. How do you figure that $30,000 a year saving? How did you arrive at that figure?

Mr. SCHMIDT. This is what is actually being paid now for those agencies, now accommodated in rented quarters.

Mr. THOMAS. In figuring your justification over a 50-year period, you still do not include the courts and the post office, do you?

Mr. SCHMIDT. Over the 50-year period, our rental saving is based on what it would cost us if we had to rent a comparable facility.

Mr. THOMAS. And the post office?

Mr. SCHMIDT. Court, post office, and the other agency requirements. This is a location where the Post Office Department was considering a separate postal facility for their expanded needs. There was a requirement for the courts and other agencies. We presented this project to the Public Works Committee.

Mr. OSTERTAG. In your existing costs, in figuring your savings over a period of time, is there not a sort of restoration provision involved, that you must restore these buildings back to the condition they were in when you got them in the first place?

Mr. BOUTIN. Many of our leases do have restoration provisions, and they cause us trouble all the time. When it comes to the day of reckoning, when we move out, to get an agreement on what the condition of the property was when we took it over is just about the most impossible thing, next to selecting a site, that I know of. They are both impossible.

Mr. OSTERTAG. I wondered if you took that into account in your estimated savings over a period of 50 years.

Mr. BOUTIN. Actually, if we were to take this into account, Congressman, we would increase the savings substantially. You would almost have to take pictures of every square inch of a leased facility to get away from this.

Mr. EVINS. The jurisdiction, work, and dockets of the Federal courts over the past decade have been growing and increasing tremendously in comparison with the State courts. Federal court activities are increasing. You probably have some instances in which the Federal court has been meeting in rented space or in a county court building, and the county court wants the Federal Government to move out and provide its own facilities.

Mr. BOUTIN. The big problem, of course, is their workload, which has been made more acute, Congressman, with the approval of the increase in the number of judges. As you say, their workload has increased like thunder. They have had very few facilities which could be used. They have visiting judges in to help with the caseload. I know in my own State of New Hampshire, they have a visiting judge come in and help. It really caused a problem.

Mr. EVINS. You had an increased number of Federal court jurisdictions.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

Mr. BOUTIN. You will notice, Mr. Chairman, in this supplemental sheet the great variance in the ratio of net assignable to gross, and you will see in almost every case you can pinpoint the reason for it.

For instance, in your border stations it is very high. It is very high at the GSA records center. Wherever you see courts normally it is pretty low. This is because of the type of space you have to provide.

FRESNO, CALIF., BUILDING

Mr. THOMAS. What is this square footage cost at Fresno, Calif.? $5,400,000, is it?

Turn to the justification on Fresno, Calif. What is the square footage cost there?

Mr. BOUTIN. Gross square feet, 198,700; net, 120,300.

Mr. THOMAS. Why are you losing 70,000 square feet there?

Mr. BOUTIN. Almost 80,000.

Mr. THOMAS. Don't make it any worse. That is due to the courthouse?

Is there a post office there?

Mr. BOUTIN. Not there.

Mr. THOMAS. Why that tremendous loss in square footage? There is about a 40-percent loss. Are you occupying the lobby of the post office?

Mr. BOUTIN. The information shown here is all I have.

Mr. THOMAS. What is the square-foot cost?

Mr. BOUTIN. $26.52.

Mr. THOMAS. Let me compare that with something about which I have some personal knowledge.

(Discussion held off the record.)

Mr. THOMAS. How do you justify this large difference in cost per square foot, Mr. Administrator? One area may have more rainfall, but what is the answer to this? Is it labor cost?

Mr. BOUTIN. I am checking the labor comparison.

Mr. BOLAND. Everything is more expensive in California.

Mr. PALMER. You have seismic framing there to begin with which you do not have in Dallas.

Mr. THOMAS. You refer to earthquakes?

Mr. PALMER. Yes. That adds 5 percent to the cost. You can add about 6½ percent to the cost of construction since that bid was taken on the Houston building. I am talking from memory now.

You also have the additional cost, and that is a contract cost you are quoting, of 5 percent for contingencies.

We spent more money there, also——

Mr. THOMAS. You have no earthquakes in Arkansas and you spend $21.25 a square foot there.

Mr. PALMER. The building cost goes by the size, too. The larger the building the less will be the cost per square footage, according to the record. A smaller building will cost more per square foot.

BALTIMORE, MD., FEDERAL OFFICE BUILDING

Mr. THOMAS. What about this building in Baltimore, $13,706,000—fallout shelter, $252,000? What is the square footage in Baltimore?

Mr. SCHMIDT. 812,000 square feet gross, 510,000 square feet net.

Mr. THOMAS. Losing 300,000 square feet? Those deducts are going to break us.

Mr. SCHMIDT. This is a comparison of the usable space with the gross area.

Mr. THOMAS. Perhaps we have better reread that report which was read a while ago.

Mr. SCHMIDT. I don't believe I have ever seen that report.

Mr. THOMAS. We read it into the record last year.

Mr. BOUTIN. The average square foot involved, however, is $24.56.

Mr. THOMAS. But you are losing 300,000 square feet out of 800,000, in round figures.

Mr. PALMER. The net assignable space is that really occupied. To that has to be added the thickness of the walls——

Mr. THOMAS. Judge, we know those details. Tell us how you lose 300,000 square feet.

Mr. PALMER. It is all in there.

Mr. THOMAS. This one must be mostly walls.

Mr. PALMER. Elevator shafts, corridors, stairs, pipe shafts, air duct shafts.

PERCENTAGE OF NET TO GROSS SQUARE FEET

Mr. THOMAS. Mr. Palmer and Mr. Schmidt didn't read this report. We want to read you some information here. I will tell you who wrote it later. [Reading:]

The usable floor area assigned to an agency divided by the gross area gives the space efficiency ratio. For Government office buildings an efficiency ratio of 80 to 85 percent in buildings not exceeding 12 stories and 75 to 80 percent in buildings exceeding 12 stories is recommended by a Federal construction council report published by the Building Research Advisory Board of the National Academy of Sciences—National Research Council.

That is the blue ribbon committee. Nobody can doubt that.

Space efficiency ratios in the 15 buildings examined by the staff ranged from 58 to 75 percent, with an average of 66 percent for all buildings studied.

What is the average you show here? You show 62 percent.

Well, the report is right.

Anyway, this report states we are losing far too much space. The report says it should be between 80 and 85 percent, and here we are down to 60 percent.

What about that?

Mr. PALMER. We cannot in our net assignable space get any 80 percent. We have tried to get it as high as we can.

Mr. THOMAS. How does private industry get it?

Mr. PALMER. They get it by the way it is figured. They figure in space we do not.

Mr. THOMAS. Is there any law prohibiting our figuring the space the same way?

Mr. PALMER. It goes back to the space we acquired and the requirements from the different agencies. They give us the space requirements.

Mr. THOMAS. You have no control over it?

Mr. PALMER. That is right.

Mr. THOMAS. You know, we have an Executive order now, Mr. Palmer. We are armed with that Executive order and we can tell these agencies yes or no, and that is just as it should be.

You got that order last year, you will recall.

Well, that is too must wastage in space, gentlemen.

Mr. BOUTIN. We have come up about 3 percent in the past year in our net assignable.

FEDERAL RECORDS CENTER BUILDING

Mr. THOMAS. What is this records center, $12,705,000? What does the justification say on that? GSA Records Center, $12,705,000. We have no fallout shelter in that.

Mr. DALY. The reason for including the records center at this time is so that we can abandon the very poor space that is at the Franklin Street Annex in Alexandria, and space at Mechanicsburg which will go back to the Department of Defense, and get out of leased space at Franconia.

USE OF EXCESS BUILDINGS FOR RECORDS CENTER

Mr. THOMAS. To my knowledge within a radius of 50 miles of where we are now sitting there are many buildings which have been abandoned by the military which are good buildings you can use for records centers.

What about here at Fort Washington? What about Quantico in Virginia? What about Frederick, Md.? This records center does not have to be closer than 50, 60, or 70 miles from here.

Mr. JONAS. And the Naval Gun Factory.

Mr. THOMAS. That is the one I was trying to think of. You want to spend $13 or $14 million. All you need is a good substantial building. You don't have to have anything fancy for the records center.

Mr. DALY. Speaking first to the Naval Gun Factory, sir, the usable buildings there, such as buildings 159, 159–E, and the other buildings, are for office type space which we consider more critical than records center space.

Mr. THOMAS. You have adequate use for every one of those vacated buildings?

Mr. DALY. Yes, sir.

Mr. THOMAS. What are you going to do with that?

Mr. DALY. One building is for a classified activity. 159–E has parts of the Library of Congress, parts of the Department of Commerce. It is for expansion needs of agencies in Washington so we can eliminate having to lease space for these people.

Mr. THOMAS. Are you going to use it for office buildings?

Mr. DALY. Yes, sir, most of it. I refer to the Naval Weapons Plant now, the old navy yard.

Mr. THOMAS. Anyway, there are no abandoned buildings in an area of 50 to 60 miles from here you can use?

Mr. DALY. We did consider at one time a building outside of Baltimore. It was the old Martin plant. The Federal Supply Service is using part of the building and other agencies are now using it.

CRITERIA FOR RECORDS CENTER

We would have run into a problem of having the records immediately available.

Dr. Grover might want to speak to this point. Part of the agreement with the agencies in putting certain records in the records centers is that they will be——

Mr. THOMAS. The doctor can get that information. He may have to twist arms to get the information, which is very commendable, but he has efficient people there on the floor. He can phone there and put his finger on any file in nothing flat.

Do you agree with that?

Dr. GROVER. I went to look at that plant twice. That is the only place which turned up within any reasonable radius which looked like a prospect.

My people felt if we went there we might as well give up any idea of trying to get more records out of the Washington offices than just the most inactive ones because we could not give the agencies service.

I think there are several things involved here. We have to have a center building. In the first place, many of these things we get from the Defense Department are not capable of keeping records. They are ratty, subject to flood being on the Alexandria waterfront, expensive to maintain, and they are difficult to operate. I think you can almost pay off building a building for a records center purpose over the years through economy of maintenance and operation.

Mr. THOMAS. I am willing to wager there are 50 different buildings the military are giving up which may be 100 to 200 miles out of Washington where you can get a tremendous amount of square footage. How many square feet do you figure you need?

Dr. GROVER. 900,000 gross and 800,000 net.

Mr. THOMAS. You can get 2 million square feet of space. They are pretty good buildings. There is no particular reason you should be right in the District of Columbia, is there?

Dr. GROVER. We have to give these offices prompt service or there is no use talking to them about taking their records into the center.

Mr. THOMAS. Can that be done by the telecommunications system?

Dr. GROVER. They want the original records back. If they wanted that——

Mr. THOMAS. You mean they want the file?

Dr. GROVER. They do.

Mr. THOMAS. You usually get a phone call to look up some information, do you not? Sometimes they send a messenger and take the file back with them.

Dr. GROVER. In most of the services they withdraw the files.

Mr. THOMAS. You do not deliver it to them, do you?

Dr. GROVER. Yes; we deliver it to them.

Mr. THOMAS. I thought they usually sent a messenger.

Dr. GROVER. We have a regular daily run. We give them good service and that is why they are willing to send their records to the center.

Mr. EVINS. You have records centers in St. Louis, Denver, Minneapolis.

Dr. GROVER. But the offices are in those regions. The centers in St. Louis are specialized centers having personnel files.

Mr. EVINS. Nothing is more important than personnel.

Dr. GROVER. There we respond to inquiries by taking information from the records. Those are also our costly centers, I might say. It is cheaper for us to send the file back to the agency.

Mr. BOUTIN. One of the big problems we have with these records centers is that we must have buildings which are relatively fireproof or resistant. They must be buildings where records can be laid out and where we can keep personnel to a minimum.

In every single square foot of space we can release for office occupancy rather than file occupancy we save $4.75 in the District of Columbia.

Mr. THOMAS. Is there anything down at Quantico? Have you been down there?

Mr. BOUTIN. We think it would be too far.

Mr. THOMAS. How far is it from here?

Mr. BOUTIN. About 35 miles.

Mr. EVINS. I am in agreement with the general philosophy of the chairman. All the records do not have to be in Washington.

We have a drive on now to decentralize in the event of atomic attack. Many of the records should be elsewhere. Part of the Capital should be elsewhere. There should be a site where the Congress could meet if necessary in case of extreme national emergency.

I think the doctor should disperse some of his records out to Tennessee and Texas.

Dr. GROVER. We have some in Texas.

Mr. EVINS. New York and North Carolina. He wants them all right here.

Dr. GROVER. I don't want them all right here.

Mr. EVINS. At arm's length.

Dr. GROVER. I want Washington office records within arm's length of Washington just as you want your records within arm's length.

Mr. THOMAS. Why is Quantico too far away, 35 miles?

Dr. GROVER. I have never looked at space there at Quantico.

Mr. THOMAS. You say you have a regular run. You can deliver them the records the same day they ask for them. They can phone in the morning and they will get them in the afternoon. I guarantee they will not use them for at least 4 or 5 days after they get them.

OTHER POSSIBLE SITES FOR RECORDS CENTER

Is there any excess space at Quantico? Thirty-five miles is not too far, is it?

Mr. JONAS. How about Bainbridge?

Mr. THOMAS. How far is Bainbridge from here, 50 or 60 miles?

Mr. TURPIN. About 80 miles.

Mr. THOMAS. Is that too far away?

Dr. GROVER. I think it is too far.

Mr. OSTERTAG. Farther than Quantico?

Mr. THOMAS. Quantico is 35 to 40 miles away, and you have fine roads.

Mr. EVINS. How about a building in Washington for the active files and then decentralize some of the archaic files to other places, Civil War records, and so forth?

Mr. THOMAS. What did you say about Quantico?

Dr. GROVER. We are asking for 900,000 square feet of space. I don't know what kinds of buildings they have down there. In most of these posts the buildings are broken up considerably, as you know, with various types of things.

Mr. THOMAS. Every now and then you get hold of a tremendous one. Look at all these warehouses in these installations. They range from a half million up to a million feet. Take the Quartermaster Supply Depot. They may not have any available; I don't know.

Mr. OSTERTAG. Are there industrial reserve plants you can use?

Mr. BOUTIN. The only one was the one in Bengies. I would like to point out to the committee that we have not been shortsighted. Exactly what you say you are interested in having us do we have done this year. We were out at Sand Point where the heat was on for us to get out. We remodeled that building at a very nominal cost because it was a Federal supply warehouse, our own building, and we moved our records in there. It makes a perfectly good records center. We will not bother this committee for many years because we had something there to work with.

Mr. JONAS. I believe there is an abandoned military installation at Frederick, Md.

Mr. THOMAS. That is only 45 to 50 miles from here.

Look into this and see what can be done.

(NOTE.—See p. 1233 for additional information on space for Records Center.)

FT. WORTH, TEX., FOB

Let us look at the building in Fort Worth, Tex., $15,664,000 for how many square feet?

Mr. BOUTIN. The gross is 795,000 and the net assignable 503,000.

Mr. THOMAS. That is worse than any of them; is it not?

Mr. BOUTIN. The ratio there is 63.27 percent.

Mr. THOMAS. Gross is 800,000 and net assignable 500,000. The percentage is what?

Mr. BOUTIN. 63.27 percent, Mr. Chairman.

Mr. THOMAS. Can we raise the percentage to around 80 to 85? What does this cost per square foot?

Mr. BOUTIN. The cost at Fort Worth per square foot is $19.43, exclusive of fallout shelter.

Mr. THOMAS. That is the cheapest square foot cost you have come up with yet. What is the justification for it? How bad is the need?

Mr. BOUTIN. The need is considerable there because of the amount of leased space we have.

Mr. THOMAS. This is purely a Federal office building and not a courthouse building or post office building?

Mr. BOUTIN. Strictly that.

Mr. DALY. Federal office building.

Mr. THOMAS. Why can it not be the same as the square footage in Houston?

Mr. BOUTIN. Prices have gone up 6½ percent since the time that was contracted.

Mr. DALY. You asked for the justification, sir. At the present time we are paying $383,144 for leased space for agencies in Fort Worth.

Mr. THOMAS. Are you going to give up that big warehouse you have there?

Mr. DALY. You mean the Federal supply service warehouse?

Mr. THOMAS. You are not going to put the Federal Supply Service in there, are you?

Mr. DALY. That is leased.

Mr. SCHMIDT. That operation is being moved——

Mr. THOMAS. What agencies are paying that rent in Fort Worth?

Mr. DALY. Federal Aviation Agency.

Mr. THOMAS. Post Office is leased, 49,000 square feet.

Mr. DALY. Yes, sir.

Mr. THOMAS. Who else is there? You have the Federal Aviation Agency. They have a regional office and their own properties 12 or 15 miles from town.

Mr. DALY. I don't recall where they are located.

Mr. SCHMIDT. They are located in Government-owned space.

Mr. THOMAS. Are they going to abandon it?

Mr. SCHMIDT. They asked that we provide for them in the new building.

Mr. THOMAS. What are they going to do with that space?

Mr. SCHMIDT. There was a decision we had to make either to remodel and revamp that space or relocate them.

Mr. JONAS. Will the chairman yield there?

Mr. THOMAS. Certainly.

URGENCY OF DALLAS AND FORT WORTH PROJECTS

Mr. JONAS. I keep hearing comments about your failure to program the Dallas center. How does this Fort Worth requirement compare with that at Dallas?

Mr. BOUTIN. Congressman, this is the decision of the Administrator. Actually we had construction capability in the sum of close to $365 million for fiscal 1964. The Bureau of the Budget set a mark for us. They said: "This is the amount you can request of the Appropriations Committees and the Congress."

Within that framework of these buildings, for which we have construction capability, it was up to me to select those which I considered most urgent and where the need was greatest and fit a pattern in.

Mr. JONAS. Do you consider the Fort Worth project more important than the Dallas project and more urgent?

Mr. BOUTIN. In relation to cost; yes. The Fort Worth building is less expensive than the Dallas building. If I were to put in Dallas and take out Fort Worth I would have had to take out three or four projects or more in order to fit it in with the total amount available.

Mr. JONAS. Do you base your decision on the money which is available or the need? Was not Dallas authorized a long time before Fort Worth?

Mr. BOUTIN. We have not had a pattern of requesting appropriations on the basis of strict construction capability in a timely manner, one, two, three. We get an appropriation mark for which we may request appropriation. We take those projects which have been approved and funded for sites and expenses which we can construct in that year, and then put together the most meaningful program we can.

We could spend the whole budget in the State of California, for example. We can spend the whole thing there and still not fulfill their needs for any given year.

The law states we should take into consideration geographical distribution, which we try to do, and relative needs.

Mr. JONAS. How does the need at Fort Worth compare with the need at Dallas? Forget about money now.

Mr. BOUTIN. They are both needed.

Mr. JONAS. I want comparability figures. One was authorized before the other. Dallas was authorized before Fort Worth, was it not?

Mr. BOUTIN. Yes. Under the Lease Purchase Act. But Dallas had to be reapproved under the Public Buildings Act of 1959 and this approval was later than the Fort Worth approval.

Mr. JONAS. Would that not indicate it had a higher priority as to need?

Mr. BOUTIN. Not necessarily, no, because of changing conditions which always make a difference.

Mr. JONAS. How much are you spending on rent in Dallas?

Mr. BOUTIN. Mr. Schmidt, have you current information on that?

Mr. SCHMIDT. I do not.

Mr. JONAS. If you don't have it, supply it for the record.

(The information requested follows:)

Current rentals in Dallas total $1,536,122.

ALLOCATION OF SPACE AT FORT WORTH

Mr. THOMAS. How are you going to alocate this space, the number of usable square feet? How are you going to allocate 500,000 feet in that new building? Supply that for the record.

(The information supplied follows:)

Proposed occupancy of space in the Fort Worth, Tex., Federal office building

	Net assignable area (square feet)
Federal Aviation Agency	150,000
Department of Defense	100,100
Department of Agriculture	40,750
Housing and Home Finance Agency	38,400
Department of Commerce	25,450
Federal Power Commission	4,500
Interstate Commerce Commission	3,800
Selective Service System	1,650
Railroad Retirement Board	1,150
Civil Aeronautics Board	600
Garage	75,000
Building operational space:	
Custodial	9,500
Communications	2,200
Health unit and vending stand	1,700
Conference	2,000
Cafeteria	6,500
Total, operational space	21,900
Reserve for expansion	40,000
Total, net assignable space	503,300
Rounded	503,000

FUTURE PLANS FOR DALLAS PROJECT

Mr. OSTERTAG. Have you any estimates as to when you will go forward with the Dallas project?

Mr. BOUTIN. No, I could not tell you that without knowing what our program is going to be for next year, Congressman. It has construction capability right now. We could construct it next year or the year after.

We have said repeatedly we consider Dallas an important project.

Mr. JONAS. What was the estimate for Dallas?

Mr. BOUTIN. I believe it was $26.7 million.

CLEVELAND, OHIO, FEDERAL OFFICE BUILDING

Mr. JONAS. You have one in Cleveland, Ohio, in this program for $41 million. How many smaller projects did you have to cancel to get the Cleveland, Ohio, project in?

Mr. BOUTIN. As far as Cleveland, Ohio, is concerned, we considered that a more urgent project.

Mr. JONAS. More urgent than what?

Mr. BOUTIN. More urgent than Dallas.

Mr. THOMAS. What is the net usable space? How many square feet do you have in Cleveland? You have $41,223,000 and a half million dollars for fallout space.

Mr. BOUTIN. The cost there, per square foot, excluding fallout, is $24.69.

Mr. THOMAS. What rent are you paying? That is $24 a square foot?

Mr. BOUTIN. $24.69.

Mr. THOMAS. What is the nature of it—nothing but as office building?

Mr. BOUTIN. Cleveland is strictly a Federal office building; that is correct, Mr. Chairman.

Mr. THOMAS. What is the usable square footage?

Mr. BOUTIN. Usable square footage in Cleveland is 995,500.

Mr. THOMAS. How many square feet in the building?

Mr. BOUTIN. 995,500 net; 1,649,000 gross.

Mr. THOMAS. How many usable?

Mr. BOUTIN. 995,500.

Mr. THOMAS. What is the percentage?

Mr. BOUTIN. 60.34.

Mr. THOMAS. For an office building that is very low. It should be at least 80 to 85 percent.

Mr. BOUTIN. There is only one which is lower than that, Mr. Chairman—no, two, Boise, Idaho, and New Albany, Ind. All the others range considerably higher.

Mr. Palmer, have you the detail on Cleveland?

Mr. PALMER. Cleveland is about 33 stories high. It is a rectangular building.

Mr. THOMAS. What is the justification? How much rent will you save? What rent are you paying?

Mr. PALMER. $1,381,299.

(NOTE.—This was the rent figure as of April 1960 when the report of building project survey on the Cleveland project was made.)

Mr. THOMAS. Deducting taxes it will take 75 years to pay for it, would it not?

Mr. JONAS. May I ask a general question?

Mr. THOMAS. Surely.

CONSOLIDATING GOVERNMENT ACTIVITIES IN ONE BUILDING

Mr. JONAS. What is the advantage of having the CAB in the same building with the FBI, for example? Is there any definite advantage in having all Government agencies in one building in a city, or is the consideration solely one of saving money?

Mr. BOUTIN. I think there is a great advantage from several viewpoints in having them all together.

So far as CAB and FBI there is no magic there. Overall, it is a big item from the standpoint of convenience to the public.

We have people every day coming in looking for somebody else. To have them all in one location is helpful to the public, saves us a lot of time, difficulty, and money in servicing the space, controlling the space, the assignment, reassignment, cleaning, management of the space.

Mr. JONAS. You don't have any of that to do when you rent an office in the Universal Building, for example?

Mr. BOUTIN. We still have the assignment, reassignment and utilization responsibility.

Mr. JONAS. Service and utilities, I mean.

Mr. BOUTIN. That is right.

Mr. JONAS. You think there is some distinct advantage to the general public, then, in having a lot of Government agencies in one location?

Mr. BOUTIN. Yes, sir; I have had ever so many people tell me in my own city, long before I came here. We have that in my hometown. They are all in the same building. If somebody wants to check on their social security and wants to talk to the Internal Revenue man, if there are one or two other calls; they do it all at one place rather than going all over the community to find them.

Mr. JONAS. I can see that.

SAVINGS ESTIMATE AT CLEVELAND

Mr. BOUTIN. Do we have those costs, Mr. Daly?

Mr. DALY. On Cleveland?

Mr. BOUTIN. Yes.

Mr. DALY. We were paying $1,381,299 annual rent for space to be released with construction of the new building. Annual rental for comparable space is estimated at about $4 million.

Mr. BOUTIN. How much do you save over a 50-year period?

Mr. JONAS. That will not be responsive to the question, what it would cost to rent comparable space, if you have more space than you need in this building. That will not be a true test of the saving, will it?

That assumes that you have an efficient utilization of space and that you really have a requirement for all of the space you are providing.

Mr. DALY. I think that is true, Mr. Jonas, except for certain expansion space which we would allow in any new building.

Mr. THOMAS. How do you justify this expenditure of $41¼ million when you are going to save $1.3 million in rent?

Mr. SCHMIDT. The $1,380,000 is the rent paid as of April 1960 for those activities to be housed in the building. The space requirements so far as the new building is concerned, based on a 50-year life of the building, include some agency expansion with their current requirements. In fact, we get this from the agencies in planning for the building.

If we were to compare this with a rental facility of comparable size and quality the annual rental would be approximately $4 million, so that the rental savings——

Mr. THOMAS. If the tenants who occupy the building were to move tomorrow and the building is constructed you would save only $1.3 million a year.

Mr. SCHMIDT. By giving up the space they now occupy—a lot of it is substandard space. In fact, one sizeable unit is a former garage, the Euclid Square Garage building in Cleveland.

Mr. THOMAS. Who are the tenants and how much space will they occupy compared with what they are occupying now? Give us that information.

Mr. SCHMIDT. I cannot identify this from the report we have here. This was not a prospectus but a report to the committee under section 11(b) of the Public Buildings Act. It does not have the occupancy plan for the building.

Mr. THOMAS. Are these figures just a guess?

Mr. SCHMIDT. No, sir.

Mr. THOMAS. What is in the prospectus? How do you arrive at the need? Let us say you know nothing about this big one and let us take this one in Texas, $601,000.

ALICE (TEX.) PROJECT

Tell me about this project in Alice.

This is a nice little city in southwest Texas, and I know they need the building. What is the population of Alice?

Mr. SCHMIDT. 21,000 people.

Mr. THOMAS. It has grown a lot.

Mr. DALY. Gross square footage 25,000, net 16,500. Total cost of the building——

Mr. THOMAS. What are you going to put in it? You have a post office, Federal office building.

Mr. SCHMIDT. Post Office Department, 8,748 square feet; Agriculture, 4,245 square feet; Defense, 650 square feet; Selective Service, 500 square feet; Treasury, 500 square feet.

Mr. JONAS. How can you include Selective Service when the act expires in June? They don't know they will be in existence.

Mr. THOMAS. What is the cost per square foot?

Mr. SCHMIDT. $22.68 per square foot.

FEDERAL OFFICE BUILDING 5, WASHINGTON, D.C.

Mr. THOMAS. What about Federal Office Building 5? How many square feet in this?

Mr. SCHMIDT. 1,780,000 square feet.

Mr. THOMAS. Who is going to use this building?

Mr. BOUTIN. Department of Defense.

Mr. THOMAS. Where is it to be located?

Mr. BOUTIN. It will bridge 10th Street, right down next to the FAA building.

Mr. THOMAS. How many square feet?

Mr. BOUTIN. 1,789,000 gross, net 1,263,000, ratio, 70.96 percent, and the cost per square foot is $20.34. That excludes fallout.

Mr. THOMAS. It is a general office building?

Mr. BOUTIN. General office building.

Mr. EVINS. Is this Department of Defense?

Mr. BOUTIN. Yes.

Mr. THOMAS. Will it be a young Pentagon?

Mr. BOUTIN. We call it the Baby Pentagon.

Mr. THOMAS. Do you think you will need all that square footage? I understand Mr. Khrushchev is moving his troops out of Cuba.

Mr. OSTERTAG. Why is that located there? That is strictly military, is it not?

Mr. BOUTIN. This is in the new redevelopment area, in the same general area where we will be talking in our supplement for Housing and Home Finance, the building to which the chairman referred. It is a general improvement of this area where practically all the old buildings were torn down and the area is awaiting redevelopment.

Mr. THOMAS. How badly does the Department of Defense need this building?

Mr. BOUTIN. Quite badly.

Mr. JONAS. They are getting rid of 10,000 civilian employees. The new budget calls for 10,000 fewer employees in the Department of Defense than last year.

Mr. EVINS. I think it should be farmed out.

Mr. THOMAS. What is this building doing in this appropriation, anyway? Why is it not "Military construction"?

You are going to maintain it for them and everything else?

Mr. BOUTIN. This is a building for which we will have full responsibilities, just as we do the Pentagon.

Mr. THOMAS. They have a little appropriation of around $43 billion this year. Can't they put up a building from that? It is only $36 million.

Mr. BOUTIN. We would have to turn back the clock.

Mr. EVINS. You are about 60 percent complete now? How far along are you on this building?

Mr. BOUTIN. Just the design.

Mr. EVINS. One building already is bridging the street. Which building it that?

Mr. BOUTIN. That is FAA on the one side and NASA on the other side.

Mr. OSTERTAG. Do you take care of the Pentagon?

Mr. BOUTIN. That is right.

Mr. OSTERTAG. That is part of your responsibility?

Mr. BOUTIN. All the military buildings not on military reservations. There is one in St. Louis, the Pentagon, a lot of space all over Washington scattered all over the city.

Mr. EVINS. You don't have much control over the military, do you?

Mr. THOMAS. Let us try to finish this tomorrow and go into the Federal Supply in the afternoon.

Be prepared to give us information on sites and expenses, locations, and how much it will cost.

WEDNESDAY, FEBRUARY 20, 1963.

CLEVELAND PROJECT

Mr. THOMAS. Gentlemen, will the committee please come to order.

When we adjourned yesterday we were looking over some of these projects and were talking about this big Cleveland project. Are there any further questions on it?

Mr. BOLAND. Is there much opposition to this project?

Mr. BOUTIN. There is no opposition to the project itself that I am aware of. There has been some opposition in Cleveland to the design of the building, the use of a lot of metal in the building instead of masonry, but you hit that in almost every building you have. If you use masonry, the steel and aluminum boys are angry with you, so you never win on that one.

A question has been raised by a delegation from Cleveland about the setback of the building. We are working on that and we think we can reach a reasonable solution without its costing any more money.

Mr. BOLAND. Have you seen the building site?

Mr. BOUTIN. Yes.

Mr. BOLAND. Is it directly across from the Cleveland Press?

Mr. BOUTIN. It is in that new redevelopment area overlooking the lake.

Mr. JONAS. Will the gentleman yield?

Mr. BOLAND. Yes.

Mr. JONAS. I am surprised to hear you say there is no opposition to it. That is a little contrary to the way my mail reads.

Mr. BOUTIN. I have heard of none.

OBJECTION OF ASSOCIATION OF BUILDING OWNERS TO CLEVELAND PROJECT

Mr. JONAS. I have a prospectus or document from the Cleveland Association of Building Owners & Managers. I would gather they are certainly not disinterested. They say you do not need that building, that there is an 8¼-percent vacancy of rentable space in Metropolitan Cleveland now, 657,993 square feet of good usable space that is vacant, and they do not understand why the Government should be spending $41 million building a Federal office building which will not be connected with the post office but just for office space when there is all this vacant space available there now.

Mr. BOUTIN. The problem is, Congressman, you get down to basic policy. Everywhere we build a building the fellows who have been leasing to the Government for years do not like it, but the basic policy is to build whenever it is economically feasible, and here we have determined it is in the best interest of the Government and this is what we are trying to do.

Mr. JONAS. Let me ask you to comment on these facts. When you refer to its being economically feasible, I take it you mean by that expression it would be a moneymaking proposition?

Mr. BOUTIN. It would save the Government money; correct?

Mr. JONAS. They say the interest on this $41 million will be $1.5 million per year cost to the Government; that depreciation figured at 2 percent would be $825,000 a year; and that the cost of cleaning, operating, and servicing this 1,200,000 square feet of space would be $2.5 million a year. That runs up to a cost of $4.7 million and the cost of your present space is $2.3 million.

If those figures are correct, tell me how that is a good deal for the Government.

Mr. DALY. First I would like to comment on the lease situation as it now stands in Cleveland. We have about 750,000 square feet under lease but it is in 31 scattered locations. Unless the situation has changed recently, there are no large blocks of space where we could consolidate.

PROJECTED SAVINGS ON CLEVELAND PROJECT

I would have to make a more critical analysis of those figures to talk to them as I would like, but according to our analysis based on our usual prospectus technique of projecting it on a 50-year cost basis, we figure there will be an annual saving of about $1.7 million and over the 50-year period there will be a saving of about $88 million.

Mr. JONAS. How do you arrive at the figure of $1.7 million saving?

Mr. DALY. The average annual cost per net square foot for comparable space as we see it—and that would take into consideration the upgrading of some of this space because some of the space is not air conditioned, and so on—we figure is about $3.62 per square foot.

Mr. JONAS. What are your other cost items you calculated there?

Mr. DALY. Well, I think in the analysis that you had they talked to the question of the estimated repair and upkeep cost, and we figure it would cost $25 million for 50 years.

Mr. JONAS. That is only a half million dollars a year?

Mr. DALY. Yes.

Mr. JONAS. That is contrary to your experience in Washington, is it not? What does it cost to upkeep and maintain 1,200,000 square feet?

Mr. THOMAS. 52 cents a square foot.

Mr. DALY. This is based on 50 cents a square foot. This is for repair.

Mr. JONAS. What about servicing and cleaning?

Mr. DALY. It would come to about the same one way or another. If you are under lease you are either paying for it in your rent or you are doing the servicing and paying for it.

Mr. JONAS. Yes, but you are only paying $1,366,000 for 788,000 square feet of space now in good buildings scattered around Metropolitan Cleveland. Is that correct?

Mr. DALY. We do not agree that all of this is good space. Some is not particularly good space.

Mr. JONAS. It is occupied by other people who are in business, they are maintaining space in these buildings. Why should the Government have better space than Tom, Dick, and Harry?

Mr. DALY. I do not think we have ever taken the position that the Government should have better space, but space that is adequate to carry out their business and that is reasonably comfortable and safe.

Mr. JONAS. Have you figured depreciation in the calculation you have there?

Mr. DALY. No. We have interest at the rate of 4¼ percent for 18 years, which would amount to $21,802,596.

Mr. JONAS. They figure interest at 3¾ percent. So they are on the liberal side. The Government is not borrowing much money at that low rate?

Mr. DALY. No.

Mr. JONAS. They figure there would be $825,000 a year depreciation and that the cleaning, operating, and servicing would cost $2.4 million as a minimum, and I assume they are basing that on what it costs to service, clean, and maintain comparable buildings in Cleveland, but you question that figure, as I understand?

Mr. DALY. No; I did not question it. My point was we would pay practically the same for servicing whether Uncle Sam is doing it or we are paying it in the rent.

Mr. JONAS. You are not paying it in the rent if you are getting 788,000 square feet for $1,366,000 now.

They say the reason you cannot get better leases is because you have a maximum lease of 3 years with an option for a 1-year extension. Is that correct?

Mr. DALY. No. GSA does have authority to rent for a maximum period of 20 years. We seldom exercise that.

Mr. JONAS. They say in leasing your requirements in Cleveland you do not enter into a lease for more than 3 years.

Mr. DALY. That was an administrative action. The reason for that is, we had the new building coming along so we wanted to have short-term leases so we could pull out.

Mr. JONAS. Are you figuring on going in this new Galbreath Building?

Mr. DALY. I am not familiar with that.

Mr. JONAS. In the area of the Tower Building now under construction?

Mr. BOUTIN. No; we have not considered going in that because we had our own building coming along.

Mr. JONAS. I do not mind saying, as one member of this committee, I take a dim view of spending $41 million for the Government to build an office building in Cleveland when there is that much vacant space in Cleveland, and if these figures given by this association are anywhere near correct, instead of saving money it will cost about $1.5 million a year in excess cost.

Mr. BOUTIN. What do you show as the saving over 50 years?

Mr. DALY. $88,345,804.

Mr. BOUTIN. What we have to keep in mind is, if we went on the basis wherever there was vacant lease space we would not build Government buildings, we would not build any, because private builders will supply it as fast as we need it on a rental basis. Any place we build these buildings, the owners do not like it because it means the loss of a good high-rent tenant. And if the Government is to occupy space only as good as the bottom half of the tier, we will not have a good, efficient operation.

Mr. JONAS. You would not say that is the situation in Cleveland?

Mr. BOUTIN. I would say in Cleveland at least one-third of the space we occupy we should not be occupying, it is bad space.

Mr. JONAS. I am not familiar enough with the Cleveland situation to know about that.

Mr. THOMAS. Mr. Jonas, I understood yesterday Mr. Daly used these figures—I am relying on my memory—that the annual rental they are paying now is $1.3 million a year and I calculated it would take 50 or 60 years to pay for the building.

Mr. DALY. Let me clear this up to make sure we are comparing apples with apples. The figure I gave today was based on the average cost for comparable leased space. It is very difficult here, without an analysis of your paper, Mr. Jonas, to compare apples with apples.

Mr. THOMAS. Here is one that is apples for apples. What figure are you paying for rent? Yesterday you testified, as I recall, $1.3 million a year.

Mr. DALY. $1.9 million.

(NOTE.—The record was examined and the rent figures referred to are as follows: $1.38 million was the figure testified to Feburary 19, 1963, as the amount of rent being paid in Cleveland. It developed that this was the figure as of April 1960 when the building project survey report was made. The current rent for all leased space in Cleveland is $1.9 million.)

Mr. THOMAS. Did you not say $1.3 million yesterday?

Mr. DALY. I cannot recall, sir.

Mr. JONAS. As I recall, the chairman said at the time it would take over 50 years to pay for it.

Mr. THOMAS. I could be mistaken.

Mr. DALY. I rechecked all my figures last night on Cleveland. I cannot recall if I said $1.3 million.

Mr. OSTERTAG. In simple arithmetic, $1.3 million over a period of 50 years would amount to $65 million. Now, it is costing you $41 million for this building. There is a difference of about $24 million. Where does this $88 million saving come in?

Mr. BOUTIN. As Mr. Daly pointed out, the difference is we are comparing what it would cost us for first-class space which we are providing with a new building. In other words, we would have to build a building which would be of the same variety as we now occupy to get an absolute figure. To make sure we are comparing like with like here, we are comparing class 1 space, with some of the class 1 space we are occupying in Cleveland.

NATURE OF ESTIMATED SAVINGS IN CLEVELAND

Mr. OSTERTAG. It was in terms of dollars rather than type of space. You gave a $88 million figure as the amount of saving.

Mr. BOUTIN. If we were to go out and rent space in the same class as we are building, the saving over this period of years would amount to $88 million.

Mr. DALY. But it would not be the space that Congressman Jonas is talking about.

Mr. JONAS. In the same type of building, instead of a saving of $88 million it would be a loss of $40 million or $50 million, would it not?

Mr. BOUTIN. No; I think you would also have to take into consideration that at the end of the 50 years you own a building which has potential value, and in the other case you have nothing.

Mr. JONAS. You cannot figure the ownership value because it would not be salable?

Mr. BOUTIN. If Uncle Sam wanted to sell it it would be salable. It would be an asset of the U.S. Government.

Mr. JONAS. It would be an asset in that we have $41 million invested in it.

Mr. THOMAS. I think we have a pretty good record on it and the committee, I know, will want to go into this in detail.

NET USABLE SPACE IN BUILDING

Mr. Daly, I was disappointed in the remark you made yesterday, you and Mr. Schmidt. I read from an investigative report quoting the National Academy of Sciences on the ratio of usable

against unusable space, and they thought that private industry, in its total square footage in a building, used about 80 percent of it whereas you were using about 60 percent. You said you had never heard of the report. May I request that you read last year's hearings where we went into it. We quoted the same report, the same figures, and had you comment on it. The committee quoted several expert private builders, without calling any names—of course the names are available if it is necessary that they be called—to the effect they could build and are building every day as good a building, as usable a building, as the Government for 15 percent less. When you say you never heard of it, may we suggest that you reread the hearings. From your remark, it evidently went in one ear and out the other.

Mr. DALY. No, Mr. Chairman. May I have an opportunity to comment on that remark?

As you know, I was not at the House hearing last year. As I recall it, I said I was not completely familiar with the report, but before I came up here Mr. Hunter——

Mr. THOMAS. A capable citizen, I might say for the record.

Mr. DALY. Before I came up here this year I read last year's hearing very thoroughly.

Mr. THOMAS. We did not expect you only to read it but act on it, and you did not act on it because your justifications are the same 60-percent usability.

Mr. DALY. I would like to say this for the chairman's information: The Administrator ordered a number of studies by the management people this year and one of the studies had to do with the ratio between net and gross. I am not entirely satisfied with this, but we find commercial industry, as we brought out yesterday, includes certain things that we eliminate in ours. What I would like to do is really refigure some of these.

Mr. THOMAS. We would like you to do that but you are a little late in refiguring, Judge Daly. We do not like to do all this talking in here and you come 12 months later and say you have not heard of it. You figure and we will figure. Is that a fair deal?

Mr. DALY. All right.

Mr. THOMAS. Let us take a look at some of the major alterations and see if that same percentage of wastage applies. Let us take a look at major conversion.

Here is one at Helena, Mont., post office and court building, $1,596,000. And here is one of the same type at Detroit, $3,990,000. We will say $4 million in round figures. That is under your major extensions and conversions. What will you do at Detroit?

Mr. BOUTIN. Mr. Chairman, while we are getting that together I would like to point out that I think you would find in comparison with last year's testimony we had increased on new construction the ratio from about 65.6 percent to 67.65 percent.

ANNUAL RENT PAID IN CLEVELAND

Mr. THOMAS. Mr. Administrator, will you forgive me for the interruption. Going back to that figure on the annual rent paid in Cleveland, yesterday I asked this question:

"How much rent will you save? What rent are you paying now?"

And Mr. Palmer replied: "$1,381,299."

I used the figure of $1.3 million. It is still not $1.9 million, is it?

Mr. DALY. No, sir.

(Note.—See explanation of these figures on p. 1201.)

Mr. THOMAS. Go ahead, Mr. Boutin.

DETROIT, MICH., PROJECT

Mr. BOUTIN. That is the point I wanted to make, Mr. Chairman. You asked a question on Detroit.

Mr. THOMAS. Yes. This is not a new building. This is a major extension and conversion. My question was that you give us the prospectus on it. How many square feet and what is it costing per square foot?

Mr. DALY. The gross on Detroit is 694,700 square feet.

Mr. THOMAS. What is the cost per square foot?

Mr. DALY. $5.74 gross on the conversion.

Mr. THOMAS. What is the nature of the conversion? You have an existing building and are changing the inside?

Mr. DALY. We propose to convert and remodel 192,000 square feet of space that was vacated by the Post Office Department.

Mr. THOMAS. I thought you said 695,000 square feet. Now you say 192,000.

Mr. DALY. The portion I am talking about was for the post office. In addition, 41,000 square feet will be retained and remodeled as a postal station. The total of the project is 695,000 square feet.

Mr. THOMAS. What will you do with the remainder of it?

Mr. DALY. The remainder of it will be for office space.

Mr. THOMAS. But it will cost about how much per square foot?

Mr. DALY. $5.74 gross.

Mr. THOMAS. That does not seem to be out of line, does it?

Mr. BOUTIN. This is mostly postal space, Mr. Chairman.

Mr. THOMAS. What is your usability of that 695,000 square feet when you get through with it?

Mr. DALY. Net to gross, you mean?

Mr. THOMAS. Yes.

Mr. DALY. 59.74 percent.

Mr. THOMAS. It is going from bad to worse.

Mr. BOUTIN. This is post office space.

Mr. THOMAS. What does that have to do with it? You mean it goes into lobby? Is this working space or lobby space?

Mr. BOUTIN. Everything.

Mr. THOMAS. I do not know of any space that gets more use than a lobby in a post office.

Mr. PALMER. The lobby is always considered in the net, the post office lobby, but not the elevator lobby.

Mr. BOUTIN. How much of the post office lobby is in the square footage?

Mr. PALMER. I do not know.

Mr. DALY. We will have to get that figure for you, Mr. Chairman.

Mr. THOMAS. That does not give us very much detail, does it?

(NOTE.—Subsequently in the hearing the following response was made:)

With respect to the size of the lobby in Detroit, Mich., we are improving utilization there by reducing the lobby from 5,980 square feet that it is now, to 1,456 square feet. So we are going to improve utilization there.

Sites and Expenses, Public Buildings Projects

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	321	394	411
	Other personnel compensation	1		3
	Total personnel compensation	322	394	414
12	Personnel benefits	24	29	31
21	Travel and transportation of persons	115	200	300
	Payment to interagency motor pools	5	20	20
22	Transportation of things	8	15	30
23	Rent, communications, and utilities	37	55	65
24	Printing and reproduction	229	600	600
25	Other services	6,941	14,751	9,392
	Payment to administrative operations fund	549	623	640
	Services of other agencies	1	1	1
26	Supplies and materials	5	10	5
31	Equipment	2	2	2
32	Lands and structures	6,292	22,300	28,500
	Total obligations	14,530	39,000	40,000

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	46	46	46
Average number of all employees	39	45	45
Number of employees at end of year	36	46	46
Average GS grade	9.2	9.6	9.6
Average GS salary	$7,960	$8,914	$9,021

Program in financing

[In thousands of dollars]

	Costs to this appropriation					Analysis of 1964 financing			
	Total estimate	To June 30, 1961	1962 actual	1963 estimate	1964 estimate	Deduct selected resources and unobligated balance, start of year	Add selected resources and unobligated balance, end of year	Appropriation required, 1964	Appropriation required to complete
Program by activities:									
1. Site acquisition	115,719	37,028	7,984	20,000	21,000	22,007	29,707	28,700	
2. Design and supervision	96,512	25,130	8,106	8,350	8,365	42,526	46,561	12,400	
3. Construction	777	775	2						
4. Program development	4,833	2,058	753	1,027	995	995			
5. Administrative operations	3,164	1,352	549	623	640	640			
Total program costs, funded	221,005	66,343	17,394	30,000	31,000	66,168	76,268	41,100	
Change in selected resources [1]			−2,864	9,000	9,000				
Total obligations			14,530	39,000	40,000				
Financing:									
Unobligated balance brought forward (−)			−45,398	−55,817	−44,317				
Unobligated balance carried forward			55,817	44,317	45,417				
New obligational authority			24,949	27,500	41,100				
New obligational authority:									
Appropriation			25,000	27,500	41,100				
Transferred to "Salaries and expenses, Office of Administrator" (50 U.S.C. 630d) (−)			−51						
Appropriation (adjusted)			24,949	27,500	41,100				

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $15,715,000; 1962, $12,852,000; 1963, $21,851,000; 1964, $30,851,000.

Mr. THOMAS. Let us take a look at "Sites and expenses." We will put pages 102, 103, and 104 in the record.

(The pages follow:)

SITES AND EXPENSES, PUBLIC BUILDINGS PROJECTS

Summary reconciliation of 1964 estimate to 1963 funds

1963 appropriation in annual act	$27,500,000
Increase in 1964	13,600,000
1964 estimate	41,100,000

Analysis by activities

Activities	1963	Decreases	Increases	1964
1. Site acquisition	$22,300,000		$6,200,000	$28,500,000
2. Design and supervision	15,100,000	$5,200,000		9,900,000
3. Program development	977,000	17,000		960,000
4. Administrative operations	623,000		17,000	640,000
Total obligations	39,000,000	5,217,000	6,217,000	40,000,000
Balance forwarded, net	−11,500,000			1,100,000
Appropriation or estimate	27,500,000			41,100,000

1963 appropriation	$27,500,000
Change	+13,600,000
1964 estimate	41,100,000

GENERAL STATEMENT

"This appropriation provides for preliminary planning of public buildings, acquisition of sites, preparation of drawings and specifications, supervision of construction, and related costs incident to projects approved under the Public Buildings Act of 1959. Costs of improvements are financed from 'Construction, public buildings projects.'

"The estimate of $41.1 million for 1964 provides for design starts including acquisition of sites, where necessary, for approximately 77 additional projects involving improvement costs in the magnitude of $184 million. Prospectuses for these projects have been developed for submission to congressional public works committees under provisions of the Public Buildings Act of 1959. Continued administration of other projects will be financed out of funds previously appropriated." (From the budget for 1964.)

It is planned to submit a supplemental estimate in the amount of $3 million for site and design costs for the proposed building for the Housing and Home Finance Agency, which was approved by the Public Works Committees in October of 1962.

APPROPRIATION LANGUAGE

For an additional amount for expenses necessary in connection with the construction of public buildings projects not otherwise provided for, as specified under this head in the Independent Offices Appropriation Acts of 1959 and 1960, including preliminary planning of public buildings projects by contract or otherwise, [$27,500,000] *$41,100,000*, to remain available until expended.

JUSTIFICATION

Except for a nominal amount, all funds appropriated through 1963 have been applied to specific projects or purposes in a manner consistent with the legislative history of the appropriation acts. Appropriations totaling $179,905,000 have been made available for this program through 1963. Schedules A and B included under the estimate "Construction, public buildings projects," reflect the application of these funds by specific projects. These schedules also show the year in which the projects were funded for sites and expenses and their current status.

The estimate of $41,100,000 for 1964 provides for design starts, supervision, and acquisition of new sites, where necessary, for approximately 77 projects selected after a thorough review and evaluation from some 350 proposed projects submitted by the regions which were developed as a result of community surveys and analysis of Federal space requirements. Prospectuses for these projects will be submitted to Senate and House Public Works Committees early in the 1st session of the 88th Congress.

Following is a breakdown by activity of the estimate of $41,100,000 for 1964:

(1) *Site acquisition, $28,700,000.*—For acquisition of sites, including appraisal costs.

(2) *Design and supervision, $12,400,000.*—Preparation of drawings and specifications, by contract or otherwise; technical services by the Design and Construction Division; soil surveys and tests, reproduction of plans and specifications; and supervision of construction, by contract or otherwise.

(3) *Program development, 0.*—Preliminary planning of projects, by contract or otherwise, and program direction, not distributed to specific projects. Costs for 1964, estimated at $960,000, are financed entirely from prior appropriations under "Sites and expenses."

(4) *Administrative operations, 0.*—Costs for 1964, estimated at $640,000, will be financed entirely from prior appropriations under "Sites and expenses."

SUMMARY OF EMPLOYMENT AND BREAKDOWN OF EXPENSES

Mr. THOMAS. We have the green sheets showing positions by grade and field and central office. Let us put pages 105 and 106 in the record.

(The pages follow:)

Positions by grade and average employment

Grade	Actual, 1962			Program, 1963			Request, 1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
GS-14	3		3	3		3	3		3
GS-13	6	4	10	10	4	14	10	4	14
GS-12	3	6	9		7	7		7	7
GS-11		4	4		3	3		3	3
GS-9	3		3	3		3	3		3
GS-7	1		1	1		1	1		1
GS-5	1	3	4	3	4	7	3	4	7
GS-4	4	6	10	3	5	8	3	5	8
GS-3	2		2						
Full-time positions	23	23	46	23	23	46	23	23	46
Average employment:									
Full time	17	22	39	22	23	45	22	23	45
Part time									
Total	17	22	39	22	23	45	22	23	45

Classification by objects

	Actual, 1962	Program, 1963	Request, 1964
Personnel compensation:			
Departmental	$157,978	$207,400	$218,800
Field	164,011	186,600	195,200
11 Total personnel compensation	321,989	394,000	414,000
Other objects:			
12 Personnel benefits	24,378	29,400	30,900
21 Travel	114,867	200,000	300,000
Travel (motor pool)	5,053	20,000	20,000
22 Transportation of things	7,607	15,000	30,000
23 Rents and utility services			
Communication services	36,569	55,000	65,000
24 Printing and reproduction	229,399	600,000	600,000
25 Other services	7,490,555	15,374,600	10,033,100
26 Supplies and materials	4,946	10,000	5,000
31 Equipment	1,984	2,000	2,000
32 Lands and structures	6,292,493	22,300,000	28,500,000
Total other objects	14,207,851	38,606,000	39,586,000
Total obligations	14,529,840	39,000,000	40,000,000
Position data:			
Average salary, all positions	7,960	8,914	9,021
Average grade, GS positions	9.2	9.6	9.6

SUMMARY STATEMENT ON OTHER OBJECTS FOR 1964

Of the $40 million total obligations for 1964 $414,000 is for personal services directly payrolled and $39,586,000 for other objects. Obligations for other than personal services are summarized below.

12 Personnel benefits, $30,900: $27,000 retirement contributions, $2,500 health benefits, and $1,400 group insurance.

21 Travel, $320,000: $300,000 for 11,111 days travel at $27 per day to acquire sites, superivse and inspect construction, and make on-site surveys and investigations to secure essential space data; and $20,000 for payment to interagency motor pools for use of vehicles.

22 Transportation of things, $30,000: For moving household goods of construction engineers, and transportation costs on administrative supplies and materials.

23 Communication services, $65,000: For telephone and teletype services and postage fees.

24 Printing and reproduction, $600,000: For reproduction of drawings, specifications, bidding documents, contract forms, etc.

25 Other services, $10,033,100: $6,775,100 for contract drawings and specifications, project supervision, site surveys and investigations; $2,617,000 payment to "Construction services fund" for technical services; $640,000 payment to "Administrative operations fund" for administrative services necessary to support this program; and $1,000 for services of other agencies.

26 Supplies and materials, $5,000: For program supplies and materials and miscellaneous administrative supplies.

31 Equipment, $2,000: For office and inspection equipment.

32 Lands and structures, $28,500,000: For acquisition of sites and for appraisal costs.

Mr. THOMAS. This appropriation provides for preliminary planning of public buildings, acquisition of sites, preparation of drawings and specifications, supervision of construction, and so on.

Do you mean this overlaps with our design and construction group where we have those famous 59 people? Your justifications say "Costs of improvements are financed from 'Construction, public buildings projects'." That is your language.

You had $27,500,000 last year and you want $41,100,000 for 1964.

EMPLOYMENT—SITES AND EXPENSES

Your total personnel compensation is $414,000 in 1964 against $394,000 for fiscal 1963. In 1962 you had 46 employees; in 1963 you have 46; and for 1964 you want 46. That is broken down between the field and the Department as follows: The Department has 23 for this year and the field has 23.

Gentlemen, read your green sheets if you do not mind. On page 105 you show you have 3 GS–14's in the Department, 10 GS–13's, and from there on down to the lower grades.

In the field you have four GS–13's, seven GS–12's, and so forth.

This table on page 102 gives you a detailed breakdown. For 1963 for "Site acquisition" you had $22,300,000 and that has increased to $28,500,000.

NUMBER OF SITE ACQUISITIONS—1963 AND 1964

How many sites will you acquire in 1964 and how many did you acquire in 1963 and what unexpended balance do you have in your 1963 funds? There you have three questions wrapped in one. Can you give us that information?

Mr. DALY. Yes, sir.

In 1964, Mr. Chairman, we will acquire about 74 sites.

Mr. THOMAS. I read from the bottom of page 103:

The estimate of $41,100,000 for 1964 provides for design starts, supervision, and acquisition of new sites, where necessary, for approximately 77 projects.

Is that right?

Mr. DALY. I stand corrected. I think I said 74. I meant to say 77.

Mr. THOMAS. How many did you acquire in 1963?

Mr. BOUTIN. Did you want that to date or the projection?

Mr. THOMAS. The projection. You have only 4 months to go in 1963.

Mr. BOUTIN. There are a number scheduled for the fourth quarter. How many sites do we intend to acquire for the full 1963?

Mr. DALY. Forty-one.

Mr. BOUTIN. How many of those have we acquired to date?

Mr. DALY. I do not have that figure with me.

FUNCTIONS OF PERSONNEL ON SITE ACQUISITION

Mr. THOMAS. How many people do you have in "Site acquisition" where you will acquire 41 pieces of property in fiscal 1963 and 77 in fiscal 1964?

Mr. DALY. We have a total of 46 full-time people, 23 departmental and 23 in the field.

Mr. THOMAS. So your total employment of 46 are assigned to "Site acquisition."

You have a $9.9 million item for "Design and supervision," and I thought we had a design group of 50 or 60 experts; and you have an item of $960,000 for "Program development," and of course we have to have an item for "Administrative operations."

Mr. TURPIN. We have just a minimum.

Mr. DALY. These 46 employees are funded from this particular appropriation of "Sites and expenses."

Mr. THOMAS. I understand.

Mr. DALY. They not only acquire the sites and do certain program planning in connection with our overall program development, but——

Mr. THOMAS. These are financed not from the Building and Management Fund but from "Sites and expenses"?

Mr. DALY. That is right, and their work is connected with acquisition and so on.

Mr. THOMAS. What you mean is there is no real breakdown in your 46 people?

Mr. DALY. Yes.

Mr. THOMAS. Why have this fancy table on page 102 and break it down into site acquisition, design and supervision, program development, and administrative operations? How did you arrive at all this if there is no division in labor in your 46 people? This table does not mean much.

Mr. DALY. Except to us in attempting to maintain some budgetary control, because most of these people are time carded.

Mr. TURPIN. Mr. Chairman, the amount for "Site acquisition" is the actual cost of the site and the same thing on "Design and supervision," it is the actual cost for design and supervision.

Mr. THOMAS. What is this $414,000 for your personnel compensation.

Mr. TURPIN. That is the personnel cost for the 46 people.

TRAVEL CONNECTED WITH SITE ACQUISITION AND CONSTRUCTION

Mr. THOMAS. You have a travel cost of $300,000 for 1964. It is $200,000 this year. That is too much travel, is it not?

Mr. BOUTIN. A large portion of this is supervision of construction, checking the progress of the jobs, and checking information on the sites themselves, Mr. Chairman.

Mr. THOMAS. You have a tremendous travel item under "Construction." That should not be so much travel on sites. It is not like going to a construction project where you have to have regular supervision.

Mr. TURPIN. All the supervision of construction by GSA personnel is financed from this appropriation.

Mr. THOMAS. I am trying to differentiate between the construction travel, and the travel connected with the acquisition of the sites. Do you mean to say the item of $300,000 is all the travel you will have for both sites and construction?

Mr. TURPIN. Yes, sir. There is no financing under "Construction" for travel.

Mr. THOMAS. None whatsoever?

Mr. TURPIN. No, sir.

Mr. THOMAS. Good.

Mr. OSTERTAG. This $300,000 for travel, does that cover the 46 persons that are involved in this work. Is that the sum and substance of it? Does that cover the 46 employees.

Mr. DALY. Not only the 46 employees, it also covers employees engaged in supervision of construction. The construction appropriation covers nothing but construction.

Mr. OSTERTAG. In other words, it is not limited to these 46 employees?

Mr. DALY. No, sir.

Mr. THOMAS. You are bound to have some travel under "Construction." Where is that?

Mr. TURPIN. The construction green sheet is page 94. All the expenses of supervision in connection with construction is financed from the "Sites and expenses" appropriation.

Mr. THOMAS. I notice it is blank here but there is bound to be some travel here.

Mr. TURPIN. No, sir. All the travel performed in connection with supervision of construction done by our people is charged to "Sites and expenses."

PRINTING OF DRAWINGS, SPECIFICATIONS, ET CETERA

Mr. THOMAS. What about this item of $600,000 for "Printing and reproduction" of drawings and specifications? Is all that covered here too for construction?

Mr. DALY. Yes, sir.

Mr. THOMAS. How do you arrive at the figure of $600,000?

Mr. DALY. This is arrived at for this year on our previous experience on reproduction on projects of this size. The blueprints, drawings, bidding documents, and so on are quite expensive. I have some typical cases here. In Los Angeles, for example, on that building the drawings and reproduction costs ran to $24,000. That gives you an idea.

Mr. THOMAS. That is your blueprints and so forth.

Mr. DALY. Blueprints, specifications, and so on.

Mr. THOMAS. Do you have your own blueprinting shop or is that contracted?

Mr. OSTERTAG. Is that not part of the architect's work?

Mr. BOUTIN. Only the initial set of plans.

Mr. OSTERTAG. These are reproduced?

Mr. BOUTIN. Reproduced to go out to the bidders.

Mr. OSTERTAG. You programed $600,000 for next year and the same amount for this year and yet you have 77 projects as compared to 41 this year.

Mr. DALY. It depends on the size of a project, Mr. Ostertag. For example, the building in Chicago cost around $48,000 for all the reproduction. The size of the projects this year are somewhat smaller.

Mr. JONAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. Gentlemen, look at item 25, "Other services." You have $6,775,100 for contract drawings and specifications, project supervision, site surveys, and investigations. What does all that mean, architect fees?

Mr. DALY. Yes, sir.

Mr. THOMAS. You do not say it. You say "contract drawings." How do you break down that $6,775,100?

Mr. JONAS. How can you investigate without traveling? You have some traveling in this item?

PAYMENTS TO CONSTRUCTION SERVICES FUND

Mr. THOMAS. $2,617,000 is for payment to "Construction services fund." What is that for?

Mr. BOUTIN. This is the difference, Mr. Chairman. The first figure is what we pay the contract architect for the actual design. The next figure is our work charged against this appropriation. This is the internal GSA work.

Mr. THOMAS. That is the $2,617,000?

Mr. BOUTIN. That is the $2,617,000.

Mr. THOMAS. What goes to make up this "Construction services fund"?

Mr. TURPIN. That is a clearinghouse for all our GSA employees in the design and supervision division. All of the time is timecarded to the projects they are working on; and for the projects financed by the GSA construction appropriation the cost is charged to "Sites and expenses," which is estimated at $2,617,000 for 1964.

Mr. THOMAS. This is $6,775,100, then, is to pay outside architects?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Why do you not account for this $2,617,000 under "Salaries and expenses"? They are all on the payroll?

Mr. TURPIN. They are on the payroll of the "Construction services fund," but their time is timecarded to the projects they are working on. If it is a project we are doing for another agency, it is charged to its funds.

Mr. THOMAS. You ought to show a deduction of $2,617,000, then, in your "Salaries and expenses" if it is reimbursable.

Mr. TURPIN. There is no appropriation for that fund. All the employees under "Construction services" are financed by reimbursements from GSA appropriations and from other agencies.

Mr. THOMAS. We understand that. Where is the reduction shown in "Salaries and expenses," because you are reimbursed to the tune of $2.6 million?

Mr. TURPIN. The fund for paying their salaries comes——

Mr. THOMAS. You set up the fund.

Mr. TURPIN. The "Construction services fund" is really a clearing account.

Mr. THOMAS. No direct appropriation. You take a little here and a little there and put it in this fund?

Mr. TURPIN. We only put it in the fund in relationship to the work that these people do on a particular project based on the timecards.

SUPPLIES AND MATERIALS—SITES AND EXPENSES

Mr. THOMAS. What about this item of $5,000 for "Supplies and materials"?

Mr. DALY. This is for administrative supplies.

Mr. THOMAS. For 46 people?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. What will you buy with that, paper and pencils?

Mr. DALY. This also includes various forms that are used.

Mr. THOMAS. That is a little high for 46 people.

Mr. DALY. Well, this, in addition to actual supplies they use on their desks——

Mr. THOMAS. How much is that per person?

Mr. BOUTIN. About $108 per person.

Mr. THOMAS. For paper and pencils?

Mr. BOUTIN. Mr. Chairman, I suppose the Administrator should take some of the responsibility for this $5,000 because the number of reports I require covers that pretty fast. A lot of this is for forms.

Mr. THOMAS. That is for your report which takes a lot of scratch paper, and so forth and so on, and then finally you whip it into shape?

Mr. BOUTIN. We have a lot of printed forms to keep track of exactly where we are at a given time on any project.

Mr. JONAS. Mr. Chairman, before you leave this subject, may I ask a question?

Mr. THOMAS. One further thing.

SITES AND PROJECTS FOR 1964

Where is your list of sites for this $41 million next year? I am told that a list was submitted to us yesterday or the day before and I am sure we have not all had a chance to look at it very carefully. I know that I have not.

Have you had a chance to look at it?

Mr. BOLAND. No.

Mr. THOMAS. Let us pass this copy around.

Mr. BOUTIN. Here is an extra copy, Mr. Chairman.

Mr. Knott and Mr. Schmidt are testifying before the Public Works Committee this morning, Mr. Chairman.

Mr. THOMAS. We do not like to appropriate money in advance before we know what it is all about.

Mr. OSTERTAG. This list shows a total of 74?

Mr. BOUTIN. It shows a list of 74 for completely new buildings and then it shows 41 repair and improvement.

There are 74 new buildings and there are 8 extensions and conversions and 41 R. & I.

Mr. THOMAS. Summarize that for us, Mr. Ostertag.

Mr. OSTERTAG. I understood you expect to acquire 77 in fiscal 1964?

Mr. THOMAS. Mr. Ostertag, get it down to the new buildings, extensions, and something in the record about it at this point if you will, please.

Mr. OSTERTAG. As the chairman indicated, the total number of extensions and new projects are all listed here and will require approval by the legislative committee?

Mr. BOUTIN. Every single one of these projects is going to require approval of the legislative committee with the exception of the increase we are requesting for Baltimore, Md. The Congress appropriated $6.5 million to put the foundation and preparing for construction—we are requesting funds for the construction this year.

The rest of the projects here are all new ones.

Mr. THOMAS. Mr. Ostertag, let us take a bird's eye view of some of these big ones in here. He has a total cost and that is going to be sites, planning, and construction, is it not?

Mr. TURPIN. There are two figures; yes, sir.

Mr. OSTERTAG. Will you explain that?

Mr. BOUTIN. I would like to speak here, Mr. Chairman, to this total that we are requesting. The figure 77 was a projection at the time we made up the budget document—what we thought we were going to have at that time—this is the reason for the disparity. We are requesting approval by the legislative committee of 82 projects for new construction or for extension and conversion and 41 under R. & I. that would be financed by the S. & E. appropriation or by the R. & I. appropriation. Of these projects, there is a sizable number of small projects which we have never gotten into before to any large extent.

As the chairman points out, there are some large projects in here, too.

DISTRICT OF COLUMBIA PROJECTS

Mr. THOMAS. Gentleman, I think the committee ought to take a look at this item where you have around $113 million set up for the District of Columbia in four projects. That is the wrap-up costs for site and planning and construction. What would be your total construction bill for new projects next year, Mr. Administrator?

What would be your figure next year if you are spending $113 million in the District of Columbia? What will it be throughout the 50 States?

Mr. BOUTIN. Mr. Chairman, as I am sure——

Mr. THOMAS. I understand that matter is pending before the legislative committee and with that on the record, let your answer be off the record.

(Discussion off the record.)

Mr. THOMAS. I am not sure that one follows the other.

You are not going out to buy a piece of land to get into the real estate business. One follows the other.

There may be a time lag of 4 or 5 years but it soon catches up with you?

Mr. BOUTIN. That is right.

Mr. THOMAS. There is a direct connection?

Mr. BOUTIN. We do have a backlog, that is my point.

This year we had construction capability, as testified to yesterday, several times what we are asking for funding.

Mr. THOMAS. Here is a center undetermined for the Patent Office for sites and planning in round figures of $2.5 million. The expenditure of that $2.5 million is going to entail a further expenditure of $45.7 million.

DEPARTMENT OF LABOR BUILDING

We have here the Department of Labor Building and on sites and planning you show $$9,580,000. What are you paying for that land a square foot?

You show $38 million that is going to entail the construction of the building. The wrap-up, turnkey job, building, site and planning is almost $48 million. What are you paying a square foot for that land? Where is it going to be located?

Mr. BOUTIN. We have not made a determination as to location but if it is in the downtown area, you are going to be in the vicinity of anywhere from $55 to $65 a square foot. If it is on the outskirts——

Mr. THOMAS. Gentlemen, you flabbergast me. Would you repeat that?

Mr. BOUTIN. $55 to $65 a square foot, including the land and improvements on it.

Mr. THOMAS. This $9.6 million is purely an estimate and that is the best that you can do?

Mr. BOUTIN. That is correct.

Mr. THOMAS. It is going to cost you $55 to $65 a square foot?

Mr. BOUTIN. If it is in the downtown area—it varies from community to community.

PATENT OFFICE BUILDING

You mentioned the Patent Office. The prospectus was approved for submission to the Congress with the strict provision that it could not be located in the metropolitan area. We can look nationwide——

Mr. THOMAS. Off the record.

(Discussion off the record.)

CHANGES IN SITES AND EXPENSES ESTIMATE

Mr. BOUTIN. To carry on with this point, if I might, please, we were given a budget allowance by the Bureau of the Budget of $41.1 million. We came up with changes on the Springfield, Mass., project; the Pembina project for the border station and the Canton, Ohio, project for which $1.2 million had been previously appropriated. That is not in this $41.1 million figure.

Then there is also the item of Tax Court for which no funding is requested for that this year, strictly an authorization from the legislative committee.

The two IRS centers for Covington and Lawrence in the Boston area, funds are being requested for sites and expenses in a supplemental appropriation. They do not form a part of this. In other words, we are asking for authorization for more projects than we are funding.

Mr. THOMAS. For sites and planning?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. Name those projects again where there is no funding asked for for sites and planning.

Mr. BOUTIN. The Tax Court and the two IRS centers.

Mr. THOMAS. The Tax Court in the District of Columbia?

Mr. BOUTIN. The Tax Court in the District of Columbia.

Mr. THOMAS. Approximately what will that land cost us a square foot?

Mr. BOUTIN. In the neighborhood of the figure I quoted, if it is in the downtown area, which it probably would be, $55 to $65 a square foot.

Mr. THOMAS. What is the IRS Building?

Mr. BOUTIN. The two IRS buildings are the automatic data processing centers, one in Covington and one up in Massachusetts where there has been a change in policy from lease to Government owned.

Mr. THOMAS. What is the nature of those structures?

Mr. BOUTIN. These are data computing centers, large amounts of automated equipment for tabulating tax returns.

Mr. THOMAS. The Internal Revenue Service?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. Heretofore you built a few of those under lease deals, have you not?

Mr. BOUTIN. I think we have had three of them that have been under a lease arrangement.

Mr. OSTERTAG. The Administrator just mentioned that there are some projects not being funded this year for which he is asking authorization.

Mr. BOUTIN. We are asking authorization of the legislative committee.

Mr. OSTERTAG. Is that reflected in the difference of $45,194,000 and $41 million in the budget?

Mr. BOUTIN. That is correct.

Mr. THOMAS. Go ahead and finish your detail of those projects that have not been funded for site and planning that you are seeking legislative authorization for.

You mentioned the Internal Revenue Data Processing Building. One is in Covington, and the other is where?

Mr. BOUTIN. In the Boston-Lawrence area, north end.

Mr. THOMAS. The other is the Tax Court in the District of Columbia?

Mr. BOUTIN. The Tax Court in the District of Columbia.

Mr. THOMAS. What are the others?

Mr. BOUTIN. Part of the cost for Springfield, Mass.

We had a prospectus approved last year and we requested funds for sites and expenses.

Mr. THOMAS. What is the nature of that construction?

Mr. BOUTIN. For an extension of the existing Federal building. This has not proved to be feasible and we want to remodel the existing building. It is a good building and we should keep it but instead of providing an extension. We plan to build a new building.

Mr. THOMAS. You have to have site and planning money that is not funded?

Mr. BOUTIN. That is not completely funded. It is going to require an additional $792,000.

Mr. THOMAS. That is four projects. How many more?

Mr. BOUTIN. Pembina. Is that North Dakota?

Mr. DALY. Border Station, yes.

Mr. BOUTIN. The building at Canton, Ohio, for conversion and extension.

Mr. THOMAS. What is the approximate figure for all unfunded items? What will they cost?

Mr. BOUTIN. You mean as far as new construction costs are concerned?

Mr. THOMAS. Yes. If you do not have that, insert the information at this point in the record.

(The information supplied follows:)

Summary of proposed public building projects submitted to the Public Works Committees

	Sites and expenses	Improvement cost	Total
Projects submitted to Public Works Committees for approval (82 projects)	$46,779,100	$214,844,000	$261,623,100
Less:			
Funds previously appropriated:			
Springfield, Mass., PO-CT (EC)	320,000		320,000
Pembina, N. Dak., BS	42,200	183,350	225,550
Canton, Ohio, PO-FOB (EC)	750,000	2,503,200	3,253,200
Funds in 1963 supplemental:			
Covington, Ky., IRS Center	790,000	3,820,000	4,610,000
Boston-Lawrence, Mass., IRS Center	815,000	4,165,000	4,980,000
Tax Court, S. & E. funding deferred	2,022,000	7,826,000	9,848,000
Total reductions (6 projects)	4,739,200	18,497,550	23,236,750
Total (76 projects)	42,039,900	196,346,450	238,386,350

List of proposed public building projects for submission to the Public Works Committees, 1st sess., 88th Cong.

1. CONSTRUCTION OF NEW BUILDINGS

Location	Purpose and character	Estimated limit of cost		
		Sites and expenses	Improvements	Total
Alabama:				
Cullman	PO, FOB, NSB	$126,700	$463,500	$590,200
Tuscaloosa	CT, FOB, NSB	446,000	1,715,000	2,161,000
Alaska: Tok Junction	BS, NSB	164,000	1,477,000	1,641,000
Arkansas: Hope	PO, FOB, NSB	124,500	346,300	470,800
California:				
Blythe	PO, FOB, SB	143,000	340,300	483,300
Harbor City	PO, FOB, SB	138,500	169,400	307,900
Jackson	PO, FOB, SB	153,000	284,000	437,000
San Bruno	RC, B	120,000	1,655,000	1,775,000
Van Nuys	FOB, SB	342,100	446,300	788,400
Colorado:				
Glenwood Springs	PO, FOB, NSB	168,600	346,800	515,400
Leadville	PO, FOB, NSB	71,600	196,000	267,600
Connecticut:				
Bridgeport	CT, FOB, SB	858,000	3,419,000	4,277,000
Orange	PO, FOB, SB	72,600	198,200	270,800
Windsor Locks	PO, FOB, SB	77,600	267,400	345,000
Florida:				
Cross City	PO, FOB, SB	64,000	157,400	221,400
Ocoee	PO, FOB, SB	61,200	138,000	199,300
Umatilla	PO, FOB, SB	74,400	112,500	186,900
Georgia:				
Acworth	PO, FOB, SB	61,500	141,100	202,600
Americus	PO, CT, NSB	197,000	1,241,000	1,438,000
Chatsworth	PO, FOB, SB	76,200	231,500	307,700
Toccoa	PO, FOB, NSB	125,600	314,000	439,600

List of proposed public building projects for submission to the Public Works Committees, 1st sess., 88th Cong.—Continued

Location	Purpose and character	Estimated limit of cost		
		Sites and expenses	Improvements	Total
Indiana:				
Evansville	CT, FOB, NSB	$815,000	$2,193,000	$3,008,000
Do	PO, FOB, NSB	447,000	1,786,000	2,233,000
Kansas:				
Scott City	PO, FOB, SB	121,300	312,200	433,500
Wellington	PO, FOB, NSB	118,900	288,000	406,900
Kentucky:				
Covington	IRS, SER, CTR, SB	790,000	3,820,000	4,610,000
Olive Hill	PO, FOB, SB	63,200	164,900	228,100
Paris	PO, FOB, NSB	115,400	242,300	357,700
Louisiana:				
Crowley	PO, FOB, NSB	133,900	337,200	471,100
Opelousas	PO, CT, NSB	237,000	1,055,000	1,292,000
Thibodaux	PO, FOB, NSB	129,900	292,800	422,700
Maryland:				
Centreville	PO, FOB, SB	108,900	227,800	336,700
Prince Frederick	PO, FOB, SB	82,500	206,600	289,100
Suitland	CTR, HTG plant, B	244,000	3,570,000	3,814,000
Massachusetts:				
Boston	RC, B	91,000	982,000	1,073,000
Boston-Lawrence	IRS, CTR, SB	815,000	4,165,000	4,980,000
Marlboro	PO, FOB, NSB	86,700	269,800	356,500
Milford	PO, FOB, NSB	109,700	305,100	414,800
Springfield	PO, FOB, NSB	1,000,000	3,105,000	4,105,000
Michigan:				
Detroit	FOB, SB	5,885,000	27,136,000	33,021,000
Grand Haven	PO, FOB, NSB	159,200	356,600	515,800
Missouri:				
Crystal City	PO, FOB, SB	71,300	139,900	211,200
Montgomery City	PO, FOB, SB	102,300	275,500	377,800
New Hampshire: Berlin	PO, FOB, NSB	94,000	352,200	446,200
New Jersey:				
Avenel	PO, FOB, SB	57,000	148,000	205,000
Burlington	PO, FOB, NSB	119,000	290,900	409,900
New Mexico: Raton	PO, FOB, NSB	135,400	354,400	489,800
North Carolina:				
Cary	PO, FOB, SB	60,100	124,000	184,100
Jacksonville	PO, FOB, SB	104,500	305,200	409,700
Raleigh	PO, CT, FOB, NSB	1,463,000	6,368,000	7,831,000
Waynesville	PO, FOB, NSB	142,200	445,600	587,800
North Dakota:				
Fargo	PO, FOB, NSB	819,000	4,364,000	5,183,000
Pembina	BS, NSB (revision)	56,000	444,000	500,000
Ohio:				
Canton	PO, FOB, NSB	475,000	2,476,000	2,951,000
Mantua	PO, FOB, SB	95,300	171,600	266,900
Oklahoma:				
Elk City	PO, FOB, NSB	120,900	247,100	368,000
Hugo	PO, FOB, NSB	130,400	299,400	429,800
Oregon:				
Baker	PO, FOB, NSB	199,000	1,301,000	1,500,000
Enterprise	PO, FOB, SB	52,600	217,700	270,300
Portland	FOB, SB	2,313,000	13,200,000	15,513,000
Prineville	PO, FOB, SB	112,600	280,300	392,900
Pennsylvania:				
Dallas	PO, FOB, SB	69,600	168,500	238,100
Irwin	PO, FOB, NSB	115,400	249,300	364,700
Tennessee: Oak Ridge	FOB, B	319,000	3,707,000	4,026,000
Texas:				
San Antonio	PO, FOB, B	480,000	7,220,000	7,700,000
Sulphur Springs	PO, FOB, NSB	131,100	310,500	441,600
Vermont: St. Johnsbury	PO, FOB, NSB	109,800	372,200	482,000
Virginia: Chester	PO, FOB, SB	75,300	119,600	194,900
Washington:				
Colville	FOB, B	44,400	436,900	481,300
Vancouver	FOB, SB	243,700	473,900	717,600
Wisconsin: Horicon	PO, FOB, SB	85,500	134,200	219,700
Washington, D.C.:				
Acquisition of land, squares 168 and 169	Purchase of land	7,500,000		7,500,000
Department of Labor Building	FOB, NSB	9,580,000	38,037,000	47,617,000
Tax Court	CT, SB	2,022,000	7,826,000	9,848,000
Urban center undetermined:				
Patent Office	FOB, SB	2,476,000	45,762,000	48,238,000
Subtotal (74 projects)		45,194,100	201,097,000	246,291,100

List of proposed public building projects for submission to the Public Works Committees, 1st sess., 88th Cong.—Continued

2. ALTERATION OF EXISTING BUILDINGS—EXTENSION AND/OR CONVERSION

Location	Purpose and character	Estimated limit of cost		
		Sites and expenses	Improvements	Total
California: Calexico	BS-AL, ER	$387,000	$1,475,000	$1,862,000
Massachusetts:				
Cambridge	PO-FOB, ER	98,000	789,000	887,000
Springfield	CT, FOB-CR (revision)	112,000	1,222,000	1,334,000
Michigan: Detroit	Roosevelt Pk. Annex-CR	281,000	3,540,000	3,821,000
North Dakota: Fargo	PO, CT, CR	67,000	680,000	747,000
Ohio: Canton	PO, FOB, CR (revision)	202,000	993,000	1,195,000
Vermont: St. Albans	PO, CU, FOB, AL, ER	129,000	826,000	955,000
Washington, D.C.: National Science Foundation Building	FOB, ER	309,000	4,222,000	4,531,000
Subtotal (8 projects)		1,585,000	13,747,000	15,332,000
Grand total (82 projects)		46,779,100	214,844,000	261,623,100

Revised prospectuses submitted to Public Works Committees, 1st sess., 88th Cong.

	Sites and expenses	Improvement cost	Total
Massachusetts, Springfield:			
PO-FOB, NSB	$1,000,000	$3,105,000	$4,105,000
CT-FOB (CR) revised	112,000	1,222,000	1,334,000
Total	1,112,000	4,327,000	5,439,000
Less prior appropriation	320,000		320,000
Additional required	792,000	4,327,000	5,119,000
North Dakota, Pembina, BS, revised	56,000	444,000	500,000
Less prior appropriations	42,200	183,350	225,550
Additional required	13,800	260,650	274,450
Ohio, Canton:			
PO-FOB, NSB	475,000	2,476,000	2,951,000
PO-FOB (CR) revised	202,000	993,000	1,195,000
Total	677,000	3,469,000	4,146,000
Less prior appropriations	750,000	2,503,200	3,253,200
Additional required	−73,000	965,800	892,800
Total additional required	732,800	5,553,450	6,286,250

Mr. OSTERTAG. It is the difference between $45,194,000 and $41.1 million; is that right?

Mr. THOMAS. Give us that figure right quick for the record.

Mr. OSTERTAG. What constitutes the difference?

Mr. BOUTIN. The difference is about $4 million in S. & E. costs.

Mr. THOMAS. That is hardly accurate because your one Tax Court building will cost you more than that.

Mr. BOUTIN. Only in S. & E. costs.

Mr. THOMAS. We are talking about sites.

Mr. BOUTIN. Yes; sites and——

Mr. THOMAS. The Tax Court land will cost you more than $4 million?

Mr. BOUTIN. No; the Tax Court for site and expenses, is $2,022,000.

Mr. THOMAS. Would that be a small building?

Mr. BOUTIN. It is a small building.

Mr. OSTERTAG. Does that mean the $1 million for Springfield is out entirely?

Mr. BOUTIN. No, sir; the difference required for Springfield is $792,000.

Mr. OSTERTAG. That would be $2 million right there.

Mr. BOUTIN. That is correct.

PATENT OFFICE AND TAX COURT

Mr. THOMAS. Is your Patent Office in that?

Mr. BOUTIN. Yes, sir; it is.

Mr. THOMAS. That is unfunded, too?

Mr. BOUTIN. No; the Patent Office is included in the $41 million.

Mr. THOMAS. We have already gone into that but there are four or five unfunded. The Tax Court is unfunded?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. What is the amount of money for the Tax Court?

Mr. BOUTIN. $2,022,000.

Mr. THOMAS. How much is the Patent Office?

Mr. BOUTIN. The amount for the Patent Office for site and expenses is $2,476,000.

Mr. THOMAS. Where will that be located?

Mr. BOUTIN. No decision has been made, Mr. Chairman, and that is the reason for the statement made in the prospectus. It is at an undetermined location but must be outside the metropolitan area of Washington. It could be in Detroit or could be——

Mr. THOMAS. Could it be anyplace in the continental United States?

Mr. BOUTIN. It could be anyplace in the continental United States but that would be subject to agreement of the Department of Commerce. It is subject to their requirements and they try to be as reasonable as possible as far as patent attorneys are concerned. The decision was made that it is an organization which does not have to have ready access to the Congress or to the President like some of the others on a day-to-day basis.

Mr. THOMAS. There is no particular reason why it should be within a radius of 50 miles of Washington?

Mr. BOUTIN. No reason at all that I can see.

Mr. OSTERTAG. Does that item include land acquisition?

Mr. BOUTIN. That includes land acquisition; yes, sir.

Mr. JONAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. This committee is quite familiar with the Patent Office since we have worked with them for years and years. We are familiar with their headaches and backlog and so on. They do have a problem.

Mr. BOUTIN. Mr. Chairman, may I point out something else in the prospectus that is significant here. It states implicitly that this building must be located either on a Government-owned site or a site that is donated for Government use. There is no money in here for acquisition of site at all. It is all for design, supervision of construction, and any related expenses of test borings and so forth.

Mr. OSTERTAG. That Washington site acquisition of land, $7.5 million, you indicate squares 168 and 169. That must be a specific site then?

Mr. BOUTIN. This goes from the FDIC Building on 17th Street right up to Pennsylvania Avenue, that area opposite the Executive Office Building. I am sure that the committee has seen some of this property we are talking about. Other properties in the area have already been purchased and new construction is going on. This proposed action is protection for the future when we need a site which must be in a central location and we will have it in hand.

Mr. OSTERTAG. In other words, the tentative location where you intend to build?

Mr. BOUTIN. A location we feel the Federal Government should own for future construction without indentifying what is going to go on it.

Mr. OSTERTAG. As the chairman pointed out, you want to acquire this land at a price in the neighborhood of $7.5 million?

Mr. BOUTIN. Yes, sir.

Mr. OSTERTAG. With a view of eventually building but you have no particular project in mind as yet?

Mr. BOUTIN. That is correct.

We are trying to safeguard here and avoid paying an increase in the cost of land we know is going to occur in this area from the best projections that we can make. We feel that if the Government does not buy it, someone else is going to buy it and put expensive improvements on it. If we do need it at a later time, we then would have to pay a highly inflated price for it.

Mr. OSTERTAG. As the chairman said, it is an indication you want to go into the real estate business?

Mr. EVINS. No; it is a saving. That land is appreciating in value everyday and later on it will cost more.

Mr. BOUTIN. This is the first time we have ever done this as an agency and we feel very strongly if we do not do it, we are going to regret it in 2, 3, or 4 years. In the meantime, the rental income from the property would go to miscellaneous receipts——

Mr. JONAS. Mr. Chairman, before you leave this subject, may I ask a question?

Mr. THOMAS. Surely.

Mr. JONAS. Do you have in contemplation now any buildings along Pennsylvania Avenue on the north side?

Mr. BOUTIN. We are thinking in terms of perhaps putting the Tax Court there but we have not made a firm decision. We are waiting for this study that is being made and we have checked with the special committee every step of the way. For instance, before we selected the site for the FBI Building we talked with them to make sure we were not doing something that was going to upset their planning.

Mr. JONAS. With respect to any building you plan or contemplate on Pennsylvania Avenue on the north side, are you giving consideration to using the ground floor for commercial purposes?

Mr. BOUTIN. No, sir; we are not. We are not for several reasons. No. 1, with the terrific shortage of space we have of Government-owned space right now, while we are out paying leases, to turn around and lease to somebody else to occupy our space does not seem to me to be a good judgment to make. Private industry is already, as a result of this study on the north side of Pennsylvania Avenue, coming in. You gentlemen probably saw recently where a large portion of that has just been purchased. It has been in the last couple of weeks. We run into all kinds of problems on joint occupancy. The FBI was a very good example.

Next to the Washington Monument there is not a more highly used tourist attraction in Washington than the FBI Building. In case of national emergency, we would have to move out whoever was in there almost overnight because of the nature of the operation of the FBI.

There were so many pitfalls here, not to give any consideration——

Mr. JONAS. That would not apply to the Tax Court though?

Mr. BOUTIN. No; it would not apply to the Tax Court, Mr. Jonas, as far as security, but I certainly would not think it desirable to mix private industry, and design a building to suit the needs of private industry, on the first floor of a Government-owned building where we are in competition with private industry and occupying the balance for the Tax Court.

My own frank opinion is this: I would be opposed to leasing any part of Government-owned property to private industry.

Mr. JONAS. Is that exactly what you are doing with these two squares if you are going to lease?

Mr. BOUTIN. Only on an interim basis until we build our own buildings.

Mr. JONAS. I think this is subject to some argument on both sides. If you absorb or use all of the space on Pennsylvania Avenue, you are going to do something to the city of Washington.

Mr. BOUTIN. We do not intend to, Mr. Congressman. The whole philosophy of this improvement of the north side of Pennsylvania Avenue is a joint venture between the Federal Government and private industry. As I pointed out the FBI Building and possibly the Tax Court are the only things we have in view as of right now, but this has stimulated a lot of interest from the private sector of the economy where people are coming in and buying these properties with a view toward building there.

Mr. THOMAS. From what I have heard on the radio, Mr. Jonas, and from what I have read in the papers, it looks like the Federal Government is going to end up picking up the entire check; is that right?

Mr. JONAS. That seems a reasonable inference.

Mr. BOUTIN. If this is something that is true, GSA has not been so informed. We have worked with that committee from the beginning.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. What is the amount of money involved in this whole thing?

Mr. BOUTIN. I have no idea, Mr. Chairman; no idea at all. This would be completely out of our jurisdiction although we are in on it for planning of the Federally owned buildings.

SITE DONATIONS

Mr. OSTERTAG. Mr. Administrator, involved in all of this program of sites and planning, acquisition and design, is this aspect one which might be termed donation? In your selection of sites, and in the matter of locating in new buildings, do you frequently have an opportunity to take advantage of donations?

Mr. BOUTIN. I would not say frequently, but occasionally we do. When we have a chance we do. A very good example of this is in Covington for this IRS Building that we are talking about. The city has volunteered to donate a site. In a big decision we had, you remember, a couple of years ago on the "Customs facility" in Los Angeles, it was a question of a donated site either by Los Angeles or Long Beach. Occasionally we do and when we do, we try to evaluate what is in the best interests of the Government in the long pull.

We could get donated sites in undesirable areas, for instance, that would not be a good judgment to accept. If it is not going to affect the investment and serve the public, it would not be a good judgment to accept. Occasionally we do and occasionally we have donated sites or partial donations.

Mr. OSTERTAG. In this total amount for "Sites and expenses," do you, in your estimates, take into account certain donations that might be involved?

Mr. BOUTIN. Where we have a known factor of donation, where we know that a community has gone on record and said, "Gentlemen, if this building is built we will donate that site" and we have examined the site and know it is a good site: yes, we have.

With respect to the Patent Office, we are moving under a directive that it must be Government-owned or donated. We also take into consideration where we have known factors of Government-owned sites.

Where there is a Government-owned site or a known donation we reduce our "Sites and expenses" requests.

PATENT OFFICE BUILDING

Mr. EVINS. Mr. Administrator, we know that the FBI is a tremendously important and valuable arm of the Government and you built a separate building for them but I do not think you should build a separate building for every agency or bureau of the Governmnet.

The Department of Commerce Building was called at the time it was built Hoover's Folly because it was the biggest building in Washington and the Patent Office was a small office in the Department of Commerce. Now you are going out and build separate buildings for each branch of the government. It looks like they could find room in the Commerce Building for the Patent Office. Why do we have to build a separate building for the Patent Office?

Mr. BOUTIN. Mr. Evins, the Commerce Department is scattered all over the metropolitan area of Washington. We have to make a judgment of whether it is more prudent to take all of the Patent Office out of there, which takes a tremendous amount of space, and build them a building or build a building for other elements of the Commerce Department. It is six of one and a half dozen of the other, as far as the amount of space is concerned.

It is a question of what is going to give the most economical operation.

AUDITORIUM BUILDING, WASHINGTON, D.C.

Mr. EVINS. What was your decision with regard to the old auditorium building on 19th Street near the Interior Department?

Mr. BOUTIN. A judgment was made before my time on that and I think it was a good judgment. When FOB–9 was authorized, it was decided that the old auditorium, I think you are referring to, would be torn down. The plan is to continue the Mall between the GSA Building and the Department of Interior and straighten out the street pattern. The building is now occupied really as a storage building.

Mr. EVINS. When are you going to get started on this?

Mr. BOUTIN. It is scheduled for demolition in August.

Mr. THOMAS. Gentlemen, let us now take a look at the next item. We will try to wind up this session before noon and then get into the Federal Supply Service, Communications, and so forth.

EXPENSES, U.S. COURT FACILITIES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
25	Other services—Payment to buildings management fund		400	497
26	Supplies and materials		60	109
31	Equipment		540	981
	Total obligations		1,000	1,587

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Rent and related costs		400	497
2. Furniture and furnishings, newly constructed buildings		230	660
3. Furniture and furnishings, other buildings		370	343
Total program costs, funded [1]		1,000	1,500
Change in selected resources [2]			87
Total obligations		1,000	1,587
Financing:			
Comparative transfer from other accounts (−)		−1,000	
New obligational authority (appropriation)			1,587

[1] Includes capital outlay as follows: 1963, $540,000; 1964, $894,000.
[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1963, $0; 1964, $87,000.

Mr. THOMAS. Mr. Reporter, put pages 110, 111, and 112 in the record.

(The pages follow:)

EXPENSES, U.S. COURT FACILITIES

Summary reconciliation of 1964 estimate to comparable amounts for 1963

1963 comparative transfer from "Additional court facilities"	$1,000,000
Increases in 1964:	
Rent and related costs	+97,000
Furniture and furnishings, newly constructed buildings	+490,000
1964 estimate	1,587,000

Analysis by activities

	1963	Increase	1964
1. Rent and related costs	$400,000	+$97,000	$497,000
2. Furniture and furnishings, newly constructed buildings	230,000	+490,000	720,000
3. Furniture and furnishings, other buildings	370,000		370,000
Total obligations	1,000,000	+587,000	1,587,000

1963 comparative	$1,000,000
Change	+587,000
1964 estimate	1,587,000

HIGHLIGHT

"This appropriation provides for costs, not otherwise provided for, of the U.S. courts incident to space expansion and for furniture and furnishings requirements of the U.S. Court of Appeals and district courts." (From the budget for 1964.)

Provision for these expenses was included under the "Additional court facilities" appropriation in 1963. However, because that appropriation was primarily for the purpose of providing facilities for the new judgeships authorized by 75 Stat. 80 and no additional appropriation is being requested, the requirements of the U.S. courts for normal space expansion and furniture and furnishings incident to replacement and expanded activities are requested under this head. Such action is also consistent with the desires of the Subcommittee on Independent Offices, House Appropriations Committee, as discussed on pages 243 and 244 of the House hearings on Independent Offices Appropriations for 1963, part 2.

The requirements for 1964 are in accordance with data furnished by the courts and are detailed in the justification which follows.

APPROPRIATION LANGUAGE

"For necessary expenses, not otherwise provided for, to provide, directly or indirectly, additional space for the United States Courts incident to expansion of facilities (including rental of buildings in the District of Columbia and elsewhere and moving and space adjustments), and furniture and furnishings, $1,587,000."

JUSTIFICATION

1. Rent and related costs:

1962	
1963	[1] $400,000
1964	497,000

[1] Financed from "Additional court facilities" appropriation.

Estimate includes $288,000 for cost in 1964 of expansion space acquired in 1963, and $209,000 for space to be acquired in 1964 for expansion. Space is to be provided for 10 judges estimated to retire and remain active (37,000 square feet), for additional referees in bankruptcy and staffs (5,700 square feet), and for

quarters for conversion of part-time referees to full-time status at Boise, Idaho (2,200 square feet), and Albuquerque, N. Mex. (2,000 square feet). Exact locations of retiring judges and new referees have not been determined.

2. Furniture and furnishings, newly constructed buildings:

1962	
1963	[1] $230,000
1964	720,000

[1] Financed from "Additional court facilities" appropriation.

The 1964 amount provides for requirements in the following newly constructed buildings to be completed in 1964: Marianna, Fla., $24,000; Gainesville, Fla., $25,000; Clarksdale, Miss., $25,000; Bismarck, N. Dak., $38,000; North Platte, Nebr., $25,000; Grand Forks, N. Dak., $20,000; New Orleans, La., $388,000; and Denver, Colo., $175,000. Provides for furniture for newly established court activities and for rehabilitation and/or replacement of furniture for existing court activities to be located in new buildings.

(Typical costs are as follows: Judge's chambers, $2,300; secretary, $1,300; law clerk—library, $700; rugs and draperies for judge's suite, $2,500; courtrooms, $3,700; jury and witness rooms, $1,300; court reporter, $800; deputy clerk, $500; U.S. commissioner's office, $1,700; attorney consultation room, $700.)

3. Furniture and furnishings, other buildings:

1962	
1963	[1] $370,000
1964	370,000

[1] Financed from "Additional court facilities" appropriation.

Provides for continued provision of furniture and furnishings at level contained in appropriations of the U.S. courts for preceding years of $100,000 for buildings operated by the Post Office Department and $270,000 for other buildings, for new and replacement furniture. (Figures supplied by Administrative Office of U.S. courts.)

EXPLANATION OF DISTRIBUTION BY OBJECTS

Other objects: $1,587,000 provides:

(1) For payment to buildings management fund for rental and related costs, $497,000.

(2) For office furnishings, such as draperies and carpeting, $109,000.

(3) For office furniture, $981,000.

PURPOSE OF NEW APPROPRIATION

Mr. THOMAS. This deals with expenses of the U.S. court facilities.

In 1963, you had $1 million which you transferred from "Additional court facilities" and in 1964 you are requesting an appropriation of $1,587,000.

Gentlemen, this appropriation provides for "costs not otherwise provided for, of the U.S. courts incident to space expansion and for furniture and furnishings required of the U.S. Courts of Appeals and district courts."

How many do we have now?

Mr. AIRHART. Ninety-two, Mr. Chairman, plus eleven.

Mr. THOMAS. I read this language and I think it needs a little explanation, gentlemen. This is at the top of page 111 (reading):

Provision for these expenses was included under the "Additional court facilities" appropriation for 1963.

I thought we supplied that need, period.

Now we are right back in here for more of the same. However, the justifications say:

Because that appropriation was primarly for the purpose of providing facilities for the new judgeships authorized by 75 Stat. 80 and no additional appropriation

is being requested the requirements of the U.S. courts for normal space expansion and furniture and furnishings incident to replacement and expanded activities are requested under this head. Such action is also consistent with the desires of the Subcommittee on Independent Offices, House Appropriations Committee, as discussed on pages 243 and 244 of the House hearings on "Independent Offices Appropriations for 1963, part 2."

If you took care of the new judges last year to the tune of $1 million and had more prior to that, why this year $1,587,000? Apparently it is for the existing courts. Is that what it adds up to?

Mr. AIRHART. That is correct.

Mr. BOUTIN. And courts in new buildings.

Mr. THOMAS. We took care of that last year and the year before last.

Mr. BOUTIN. These new buildings coming into being during fiscal year 1964 we will occupy that year.

Mr. THOMAS (reading):

The requirements for 1964 are in accordance with data furnished by the courts and are detailed in the justification which follows.

Let us take a look at the breakdown of that and see how it adds up.

You gentlemen might go on reading the bottom of page 111 and the top of page 112 while I read over this paragraph here:

Rent and related costs, $400,000 in 1963 and $497,000 in 1964.

I did not think we were paying any rent.

Estimate includes $288,000 for cost in 1964 of expansion space acquired in 1963.

There is no rent involved there; is there?

ADDITIONAL SPACE FOR U.S. COURTS

Mr. TURPIN. I think this is a case where additional space has to be provided for the courts. We have to move people out of existing Government-owned buildings to be housed in rented space to make this additional space available to them.

Mr. THOMAS. When we say "rent" here, that is hardly true. We do not pay any rent on our Federal courts.

We prohibited this by law, did we not?

Mr. TURPIN. It is equivalent rent, Mr. Chairman. It is where we have to go out and rent space to house people.

Mr. THOMAS (reading):

* * * $209,000 for space to be acquired in 1964 for expansion.

You have an item of $288,000 plus $209,000 for expansion. Where are you going to expand, what courts? What is the nature of this item?

You have here in the neighborhood of half a million dollars but what is it for?

Mr. TURPIN. The requirement generally is for additional space——

Mr. THOMAS (reading):

Space is to be provided for 10 judges estimated to retire and remain active.

They are housed now, are they not, in 37,000 square feet?

Mr. BOUTIN. Their replacements will be coming in.

Mr. THOMAS. That costs half a million dollars for 37,000 square feet for 10 judges who are going to retire. We had better keep them active, had we not?

Then for additional referees in bankruptcy and staffs, we have 5,700 square feet which gives you a total of about 43,000 square feet.

Then for quarters for conversion of part-time referees to full-time status at Boise, Idaho, 2,200 square feet, and Albuquerque, N. Mex., 2,000 square feet.

You say the exact locations of retiring judges and new referees have not been determined.

Is each judge now appointing his own referee and the retiring judges are keeping their referees active?

Mr. AIRHART. Mr. Chairman, each new judge does not appoint a referee. This is done by the Judicial Conference, adding referees as required by caseload.

On retiring judges, we can only predict on past experience. We do not know which ones will retire but we think 10 will retire.

Mr. THOMAS. What it adds up to is that you need how many more referees than you now have? You mentioned one at Boise and one at Albuquerque, but that is only two?

Mr. AIRHART. That was two converted to full time, and we requested space for the three newly created referees' offices.

Mr. THOMAS. Where are they located?

Mr. AIRHART. That would be dependent on the caseload and approval by the Judicial Conference.

Mr. THOMAS. That is half a million dollars, and where is the rest of it?

FURNITURE AND FURNISHINGS FOR COURT FACILITIES

Let us take up the furniture and furnishings item.

What is the total for this item, $720,000?

Mr. TURPIN. There are two items; there is one of $720,000 for furniture and furnishings for new and extended or converted buildings being completed in 1964, and following that is an item of $370,000 for other buildings.

Mr. THOMAS. What do you mean by new buildings? You are dislodging certain people and you are going to pay $230,000 for the dislodged tenants? Is that what it adds up to?

Mr. TURPIN. Sir, in this case, it is tied right into the new Federal buildings being constructed by GSA and under the appropriation made to us in the "Construction" item.

Mr. THOMAS. But you are seeking a separate appropriation of $1.5 million.

Mr. TURPIN. This is for the furniture.

Mr. THOMAS. It is not all furniture. You have an item of $230,000 in here.

Mr. TURPIN. The $230,000 was in 1963 and the $720,000 is the estimate for 1964.

Mr. THOMAS. The $720,000 is purely for furniture? You set it out here and it is all furniture and no rent?

Mr. TURPIN. That is right.

Mr. THOMAS. Here is where it is going to be spent. The 1964 amount provides for requirements in the following newly constructed buildings to be completed in 1964.

This is all furniture?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Marianna, Fla., $24,000; is this a new courthouse?

Mr. DALY. It is an extension to the present building.

Mr. THOMAS. It is going to cost $24,000 to equip office space for the judge and his staff?

Mr. DALY. Correct, sir.

Mr. THOMAS. Gainesville, Fla., $25,000.

Mr. DALY. A new building.

Mr. THOMAS. Clarksdale, Miss., $25,000. Is this a new building in Clarksdale?

Mr. BOUTIN. These are all new court facilities, Mr. Chairman.

Mr. THOMAS. Bismarck, N. Dak., $38,000; North Platte, Nebr., $25,000; Grand Forks, N. Dak., $20,000; New Orleans, La., $388,000.

NUMBER OF FACILITIES PROVIDED FOR

These are all new buildings but how many judges are you taking care of in New Orleans?

Mr. DALY. That provides for 25 judges, 8 courtrooms, 10 jury and witness rooms, and 6 court reporters.

This provides for five visiting judges. In addition, suites are required for 6 probation officers, 8 U.S. attorneys, 30 clerks of the court, and deputies, and a marshal.

PRIOR APPROPRIATIONS FOR COURT FACILITIES

Mr. THOMAS. Again, I refer to the 1963 appropriation. Were not these new buildings taken care of for the new judges then?

Let us get out the record and see what happened.

I think it was the intention of the committee last year to take care of only part of it, or was it all?

Mr. JONAS. All of it, I thought.

Mr. EVINS. It is a substantial amount, Mr. Chairman.

Mr. THOMAS. Do you remember, Mr. Boutin, or any of you gentlemen?

Mr. DALY. Mr. Chairman, may I——

Mr. AIRHART. Mr. Chairman, because of the time limit on the omnibus judgeship bill, as I remember, the initial costs for the new judgeships came in by way of a supplemental. In the supplemental GSA brought in the item for furniture and facilities.

This was a separate item which was intended to cover every one of the appointees under the new judgeship bill. It did not touch any costs for the courts as a whole, simply the cost of the new judgeships.

NEW ORLEANS COURT FACILITY

Mr. THOMAS. What is this new item in New Orleans?

Mr. AIRHART. New Orleans is a complete remodeling, as I remember it, of the courthouse which has necessitated moving both the court of appeals and the district courts——

Mr. THOMAS. No; there is no construction money in here. According to the justifications it is all furnishings.

Mr. AIRHART. Moving the court and this is for furniture and furnishings when they move back into the remodeled building.

Mr. THOMAS. That gets back to the deficiency. We appropriated for this item last year, did we not?

Mr. AIRHART. There is one new judge in New Orleans and then furniture and furnishings.

Mr. THOMAS. Only one?

Mr. AIRHART. Only one in New Orleans and one in Baton Rouge.

Mr. THOMAS. Those were new judges?

You must be taking care of the court of appeals in here?

Mr. AIRHART. Correct.

Mr. THOMAS. They were not appropriated for last year?

Mr. AIRHART. No, sir.

Mr. THOMAS. These are not new judges but it is the old court?

Mr. AIRHART. That is correct.

Mr. THOMAS. What are you doing for them?

Mr. AIRHART. In essence, this is to be the cost for the court of appeals judges who sit in New Orleans plus the expanded court of appeals quarters, plus the total of the district court.

Mr. THOMAS. Have we not already appropriated some money for New Orleans?

Let us get ourselves straightened out here.

This is for the court of appeals in New Orleans, then?

Mr. AIRHART. And the district courts.

Mr. THOMAS. Did we not appropriate for the new judge down there last year?

Mr. AIRHART. For furniture and furnishings; yes, sir. It did not touch on any other judge or any of the other court offices.

Mr. THOMAS. Do you have any new judges other than the ones we appropriated for last year in New Orleans?

Mr. AIRHART. No, sir.

Mr. THOMAS. What do you mean when you say new judges? Do you have any new judges on the circuit court?

Mr. AIRHART. Not in New Orleans; no, sir. I am saying this request would exclude new judges who were taken care of under the previous——

Mr. THOMAS. Exclude? I thought you said include.

What are the judges going to do with this $388,000? Is this throwing everything out the window and completely refurbishing the quarters, or what?

BASIS OF CURRENT ESTIMATE

Mr. AIRHART. Under the terms of our agreement with GSA, Mr. Chairman, we would see detail on this only if they felt it was unreasonable or if they deviated from the standards we have given. I do not know whether we yet have in Washington that detail but it has not been referred to us.

Mr. THOMAS. Who prepared this justification, Mr. Administrator?

Mr. BOUTIN. PBS.

Mr. TURPIN. On the details with respect to each of the locations, the information was developed in the regional offices, as I understand it, Mr. Chairman. It was then submitted to you people, Mr. Daly?

Mr. DALY. That is correct. We coordinated with the Office of the U.S. Courts on this.

Mr. THOMAS. Your language is quite misleading.

You say—

provides for furniture for newly established court activities—

What do you mean by—

newly established court activities—

And what do you mean by—

and for rehabilitation and/or replacement of furniture for existing court activities to be located in new buildings.

We do not want to be critical in the slightest to our judges, but as far as I am concerned, and I expect I speak the sentiment of the committee, we cannot tell from this justification what it is all about.

You say that costs are as follows:

Judge's chambers, $2,300; secretary, $1,300; law clerk, library, $700; rugs and draperies for judge's suite, $2,500; courtrooms, $3,700; jury and witness rooms, $1,300; court reporter, $800; deputy clerk, $500; U.S. Commissioner's office, $1,700; attorney consultation room, $700.

Furniture and furnishings, other buildings, 1963, $370,000, and 1964, $370,000.

You say:

Provides for continued provision of furniture and furnishing at level contained in appropriations of the "U.S. Courts" for preceding years of $100,000, for buildings operated by the Post Office Department and $270,000 for other buildings, for new and replacement furniture.

Apparently this is the figure you do not need now. It is a contingency that has not arisen.

Can you shed any light on that?

Mr. AIRHART. Mr. Chairman, as I understand it, this figure is, year in and year out, our costs. This is not concerned with new buildings or new judgeships, but with replacing of furniture or furnishings in the various existing court facilities. It can be a bit deceptive, as I told you a moment ago. We have some 103 district courts and courts of appeals. We have 355 places of holding court in which there are facilities which we maintain.

In those 355 places, we have what we might call 753 units.

The judges are provided for in those places so that our year-in-and-year-out costs—and this figure is based on our own past experience both in GSA and the Post Office when they handle part of this—runs at about this level.

RENT AND RELATED COSTS

Mr. THOMAS. You have some "Other object" breakdowns here that add more confusion.

You have an item here of $497,000 in the breakdown of your overall $1,587,000.

You say that $497,000 is for payment to "Buildings management fund" for rental and related costs.

That is where you are displacing tenants?

Mr. BOUTIN. That is the rent.

Mr. THOMAS. In an existing building?

Mr. TURPIN. That is correct.

Mr. THOMAS. Would that not be taken care of in one of your other appropriations?

Mr. BOUTIN. No, sir.

Mr. THOMAS. $109,000 for "Office furnishings" such as draperies and carpeting and $981,000 for office furniture.

NEW JUDGES FOR WHICH FACILITIES ARE PROVIDED

What did we appropriate for that last year?

Mr. BOUTIN. That was for new judges.

Mr. THOMAS. Last year we appropriated $8.5 million for how many new judges?

Mr. AIRHART. Seventy-three.

Mr. THOMAS. How many do we have altogether now excluding the——

Mr. AIRHART. Mr. Chairman, including the active retired judges, roughly 450 judges.

Mr. JONAS. Have all 73 places been filled?

Mr. AIRHART. All but five as of this moment.

Mr. THOMAS. We have 88 courts and how many judges?

Mr. AIRHART. We have 92 district courts and 11 courts of appeals.

Mr. THOMAS. How many judges in your district courts?

Mr. AIRHART. 350, I believe, is the figure for district courts, and about 100 for circuit courts of appeal. Again, I am including retired and active judges.

Mr. THOMAS. How many judges are you taking care of in this furniture item of $1.1 million?

Mr. AIRHART. Mr. Chairman, I could not answer as to the whole of the item because of the replacement figure. I do not know the number it is going to be for the new buildings but I can supply the exact number of judges for the record.

I would like to try to supply from memory, but I am not sure that I can be accurate.

Mr. THOMAS. Supply it for the record.

(The requested information follows:)

Federal court quarters in new facilities

Judicial district	Number of Judges	Location of new facility
Florida, northern	[1] 4	Marianna, Gainesville.
Mississippi, northern	2	Clarksdale.
North Dakota	2	Bismarck, Grand Forks.
Nebraska	3	North Platte.
Louisiana, eastern	4	New Orleans.[2]
Colorado	3	Denver.[3]

[1] 1 judge also sits in middle and southern districts.
[2] Also headquarters of 5th Circuit Court of Appeals where all 10 circuit judges have quarters.
[3] Also headquarters of 10th Circuit Court of Appeals where all 9 circuit judges have quarters.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. Any questions on this item?

(No response.)

Mr. BOUTIN. Mr. Chairman, could I give you some information we have missed the answers on quickly?

Mr. THOMAS. Yes.

DETROIT, MICH., PROJECT

Mr. BOUTIN. The first is the size of the lobby in Detroit, Mich. We are improving utilization there by reducing the lobby from the 5,980 square feet that it is now, to 1,456 square feet. So we are going to improve the utilization there.

(NOTE. See p. 1203.)

Mr. BOUTIN. The second is that in fiscal 1963 under sites and expenses, we will acquire 41 sites.

SPACE FOR RECORDS CENTER

The other piece of information we did not have the answer to yesterday was on the availability of space that could be utilized or converted for utilization for the Federal Records Center.

We checked at Quantico and out of a total of 478,000 square feet of storage space they had there, they only have 7,000 that they are not presently using or could make available.

There is nothing in the Naval Weapons Plant.

At the Bengies plant up near Baltimore, that is being entirely used by a wide variety of agencies, including GSA for Federal Supply and the maritime warehouse in Baltimore has 465,000 square feet in 1 building with 200,000 scattered over an additional 57 buildings.

Federal Supply made an economic analysis of it with a view toward possible conversion to Federal Supply space. They determined it would cost more than it was worth.

I am sorry we did not have this at the time you asked for it.

PAYMENTS, PUBLIC BUILDINGS PURCHASE CONTRACTS

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
32	Lands and structures	2,063	2,270	2,334
41	Grants, subsidies, and contributions	814	972	972
43	Interest and dividends	1,763	1,908	1,894
	Total obligations	4,640	5,150	5,200

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Payments to contractors	3,826	4,178	4,228
2. Taxes	814	972	972
Total program costs, funded—obligations [1]	4,640	5,150	5,200
Financing:			
Unobligated balance lapsing	560	----------	----------
New obligational authority	5,200	5,150	5,200
New obligational authority:			
Appropriation	5,200	5,440	5,200
Proposed transfer to "Operating expenses, Public Buildings Service," due to pay increases	----------	−290	----------

[1] Includes capital outlay as follows: 1962, $2,063,000; 1963, $2,270,000; 1964, $2,334,000.

Mr. THOMAS. Let us take a look at "Payments, public buildings purchase contracts."

If my memory serves me correctly, we still have 20?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. Mr. Reporter, put pages 107 and 108 in the record.

(The pages follow:)

PAYMENTS, PUBLIC BUILDINGS PURCHASE CONTRACTS

Summary reconciliation of 1964 estimate to 1963 funds

1963 appropriation in annual act	$5,440,000
Proposed transfer to "Operating expenses, Public Buildings Service" due to pay increases	—290,000
Appropriation (adjusted)	5,150,000
Increase in 1964: Principal and interest	50,000
1964 estimate	5,200,000

Analysis by activities

	1963	Increase	1964
1. Principal and interest	$4,178,000	$50,000	$4,228,000
2. Taxes	972,000		972,000
Total	5,150,000	50,000	5,200,000

1963 appropriation	$5,440,000
Transfer	—290,000
Comparative	5,150,000
Change	+50,000
1964 estimate	5,200,000

GENERAL STATEMENT

"This appropriation provides for payments to contractors and taxing authorities on 20 projects constructed through lease purchase arrangements under the Public Buildings Purchase Contract Act of 1954." (From the budget for 1964.)

APPROPRIATION LANGUAGE

"For payments of principal, interest, taxes, and any other obligations under contracts entered into pursuant to the Public Buildings Purchase Contract Act of 1954 (40 U.S.C. 356), [$5,440,000] *$5,200,000.*"

JUSTIFICATION

Upon completion of buildings and acceptance by the Government, equal quarterly payments in arrears are made to contractors for amortization of principal with interest over 10- or 25-year contract periods. In addition, real estate taxes are paid to taxing authorities until title of the property is vested in the United States.

GSA is continually striving to acquire all facilities still not fully owned by the Government. Letters were addressed to all financing contractors in the fall of 1962, inquiring whether they would be interested in earlier liquidation of the contracts by prepayment of the outstanding principal balance plus accrued interest to date of settlement.

The estimate of $5,200,000 for 1964 includes $4,228,000 for payment of principal and interest on 20 projects remaining under purchase contract, and $972,000 for taxes. Taxes are based on actual or published tax assessment and levy data

adjusted to reflect known local customs and practices, or legal precedents. Details by project are set forth on the following page.

NATURE OF LEASE-PURCHASE CONTRACTS

Mr. THOMAS. Give us a bird's-eye view of how many there were in the beginning and how many we have already bought, redeemed we will say, and how many you are trying to redeem.

As of today there are 20 still outstanding. Give us the cost this year of paying taxes and amortization.

That is $5.2 million; is that correct?

Mr. TURPIN. That is correct, Mr. Chairman.

Originally, there were 29 lease-purchase projects.

Mr. THOMAS. If you were to buy, and I assume your lease on it is so worded, you can take it over within what earliest period?

Mr. TURPIN. At one-half of the period, we can take it over with a 2-percent penalty at that time.

Mr. THOMAS. What were the contracts based on, 20 or 25 years?

Mr. TURPIN. Of the 20 remaining, 14 are 10-year contracts and 6 are 25-year contracts.

Mr. THOMAS. Of those 10-year contracts can you take them over at any time without a penalty?

Mr. TURPIN. No, sir. We can take them over when 5 years have gone by, and at that time we can take them over with a 2-percent penalty. In the latter part of 1964——

AMOUNT TO PURCHASE OUTSTANDING CONTRACTS

Mr. THOMAS. To exercise the full extent of your rights to take over those 20 buildings for which you are paying, what amount of money would it take?

Mr. TURPIN. Mr. Chairman, if we bought them out, each one of them at the half-way mark, it would cost us about $29 million.

It would be $28,494,232 in principal and $569,000 in penalty.

PRINCIPAL, INTEREST, AND TAXES IN 1964 REQUEST

Mr. THOMAS. What is the breakdown of this $5.2 million that you are requesting?

Mr. TURPIN. Sir, the principal is $2,334,000. The other items are $1,894,000 for interest and $972,000 for taxes and assessments, making $5.2 million total.

Mr. THOMAS. You state here, $4.2 million for payment of principal and interest, and then $972,000 for taxes and assessments.

Mr. TURPIN. Correct.

Mr. THOMAS. What equity is there?

Mr. TURPIN. $2,334,000.

Mr. THOMAS. Out of your $5.2 million you are getting equity of $2.3 million and the remainder goes into taxes and interest?

Mr. TURPIN. Yes, sir.

ACQUISITION OF BUILDINGS FROM CONSTRUCTION SAVINGS

Mr. EVINS. You can only acquire how many in 1964 when you reach the half-way point?

Mr. TURPIN. Four.

Mr. EVINS. How much would be necessary to acquire these when you reach that point? That is all we can handle.

Mr. TURPIN. That would be $756,050.

Mr. THOMAS. We understand you are trying to make some arrangements to acquire two of these buildings. Which two and how much money is involved?

Mr. BOUTIN. Durham, N.H., is one and Burlington, Vt., is the second. The balance in principal on those two is, roughly, $2.5 million as of this time.

Mr. THOMAS. Are you about to buy them or what arrangements are you going to make?

Mr. BOUTIN. Well, we are attempting to make an exchange as at least part payment, and we would like to think the whole payment, with the John Hancock Life Insurance Co. for a piece of land in Back Bay Boston for these two, and we are negotiating with them now.

Mr. THOMAS. In other words, it is not going to require a special appropriation to acquire these two properties; you are going to get them, if you can get them, out of existing assets?

Mr. BOUTIN. Out of construction savings, if required, plus the value of this land.

Mr. EVINS. What are the others?

Mr. BOUTIN. The four of them are Sedan, Kans.; Durham, N.H.; Manning, S.C.; and Gainesville, Tex. Burlington, Vt., is not in here and it would be only by negotiated arrangement that we could get them to back down.

BUILDINGS PREVIOUSLY ACQUIRED

Mr. THOMAS. You have already acquired how many?

Mr. BOUTIN. Nine.

Mr. THOMAS. At what cost?

Mr. TURPIN. For the nine we did purchase, the purchase price was $5,606,887.

ACQUISITION OF BUILDINGS FROM CONSTRUCTION SAVINGS

Mr. THOMAS. Did you acquire those with appropriated funds or savings?

Mr. TURPIN. That was from construction savings.

Mr. THOMAS. That is a feather in your hat.

Mr. OSTERTAG. Up to now they have been acquired from construction savings?

Mr. TURPIN. Nine were acquired from construction savings, eight of which were negotiated without paying a penalty.

Mr. EVINS. That is a triple saving.

Mr. OSTERTAG. What means do you employ to achieve this construction saving?

Mr. BOUTIN. The construction savings come to us on our construction projects.

Mr. THOMAS. We just appropriated too much money.

Mr. OSTERTAG. I believe the Administrator wanted to answer it.

Mr. BOUTIN. We get this from contracts we let where the amount contracted for is less than the amount appropriated. We have a 10-percent leeway where the amount contracted for is in excess of the appropriation, if it is reasonable and the prudent thing to do. So it is the difference between these two that constitutes the construction saving.

Mr. OSTERTAG. And you have the right to transfer these savings?

Mr. THOMAS. We gave them some language, I think.

Gentlemen, let us get some lunch and come back at 1 o'clock.

WEDNESDAY, FEBRUARY 20, 1963.

FEDERAL SUPPLY SERVICE, GENERAL SERVICES ADMINISTRATION

WITNESSES

BERNARD L. BOUTIN, ADMINISTRATOR
C. D. BEAN, COMMISSIONER, FEDERAL SUPPLY SERVICE
WILLIAM P. TURPIN, ASSISTANT ADMINISTRATOR FOR FINANCE AND ADMINISTRATION
ROBERT B. CONRAD, COMMISSIONER, TRANSPORTATION AND COMMUNICATIONS SERVICE
JOE E. MOODY, GENERAL COUNSEL
JOHN M. McGEE, DEPUTY COMMISSIONER, FEDERAL SUPPLY SERVICE
LEWIS E. SPANGLER, ACTING ASSISTANT COMMISSIONER, OFFICE OF SUPPLY DISTRIBUTION
GEORGE W. RITTER, ASSISTANT COMMISSIONER, OFFICE OF STANDARDS AND QUALITY CONTROL
CHARLES W. GASQUE, JR., DIRECTOR, OFFICE OF PROCUREMENT AND ECONOMIC POLICY
EUGENE M. ENGLISH, ACTING DIRECTOR, PROCUREMENT OPERATIONS DIVISION

Mr. THOMAS. Gentlemen; will the committee please come to order. Let us go into the "Federal Supply Service."

We certainly again want to welcome our distinguished friend, the Commissioner, Mr. Bean; Mr. McGee, the Deputy Commissioner; Mr. Spangler, the Acting Assistant Commissioner of the Office of Supply Distribution; Mr. Ritter, the Assistant Commissioner of the Office of Standards and Quality Control; and Mr. Gasque, the Director of the Office of Procurement and Economic Policy. Where is Brother Gasque?

Mr. GASQUE. Right here, sir.

Mr. THOMAS. You are hidden over there. Of course, our able Administrator, Mr. Boutin is with us as well as Brother Turpin and some of our other distinguished guests.

Mr. Administrator, do you or Commissioner Bean have any general observations to make to us?

We have not seen you for several months, Commissioner Bean. You look grand and we hope you feel as good.

Mr. BOUTIN. Mr. Chairman, I have no opening statement other than the one I presented to the committee at the beginning of the hearings unless Mr. Bean has something he wishes specifically to add.

Mr. BEAN. If you want a short presentation of some of the items to set the stage.

Mr. THOMAS. You do not have to make it too short.

RECENT INCREASES IN BUSINESS

Mr. BEAN. Our growth in the past 2 or 3 years I think has been very significant, especially when you take it from 1958 forward.

Our purchases in 1958, the stores items, were $147 million; this year it will be $351.6 million; and next year we expect it to be $440 million.

Purchases from schedules in 1958 were $411 million; next year they will be $840 million. Consolidated purchases will be up for a total volume of business in 1964 of $1,480 million. If you want to add 35 percent to that it is bigger than Montgomery Ward.

We expect that before the end of 3 years we will reach $2 billion. This is largely because we have recently made arrangements with the Army to take on their business on the same basis we have in the past in dealing with the Air Force.

LARGE ITEMS OF EXPENSES

Mr. THOMAS. What are a half dozen or so of your big items on the schedules?

Mr. BEAN. Household and quarters furniture, office furniture, typewriters, and the ADP equipment is a very large schedule. These types of things run into a lot of money.

Mr. THOMAS. You are overlooking your automobiles and gasoline and tires.

Mr. BEAN. Gasoline and tires; yes.

Mr. THOMAS. Those are your biggest items, are they not?

Mr. BEAN. No, ADP is bigger than tires, and automobiles are a nonstores item.

TYPEWRITERS

Mr. THOMAS. The limitation was taken off on typewriters years ago. What is the situation on typewriters now?

Mr. BEAN. As a matter of fact, we are having more competition and when we make consolidated definite quantity purchases we can get them cheaper, and the agencies are very cooperative, too.

Mr. THOMAS. What do you pay for a standard keyboard typewriter?

Mr. BOUTIN. A manual machine, Mr. Chairman? What is a manual costing now?

Mr. MCGEE. About $150, in lots of 100.

Mr. THOMAS. What was the limitation?

Mr. MCGEE. $84.70 in 1947.

Mr. THOMAS. It has gone up about 75 percent, then, is that right, Mr. McGee?

Mr. MCGEE. I think it is generally in line with the increase in other merchandise.

Mr. THOMAS. Oh, no.

Mr. BEAN. I think we had better check into that.

OTHER PROGRAM INCREASES

Our inventory has increased from $39.6 million in 1958 to this year, at the end of the year, it will be $114.7 million.

And space has increased from 4,727,000 square feet to 11,800,000 square feet at the present time.

The cost of operations on a unit basis has come down from 5.09 in 1958 to 4.56 in 1964.

The back order ratio was 10.8 in 1958 and is 5.6 this year.

The work in process was 8.8 days in 1958 and it is 5.3 days this year.

The annual stock turn was 3.8 in 1958, 3.2 in 1962, and 2.8 this year.

SAVINGS TO THE GOVERNMENT BY VIRTUE OF GSA SUPPLY SYSTEM

Mr. THOMAS. How much money do you figure you save the taxpayers per year as a result of the $1.5 billion business you are doing? What is a good "horseback" figure?

Mr. BEAN. 40 percent.

Mr. THOMAS. 40 percent of $1.5 billion is how much?

Mr. BEAN. It runs into money.

Mr. THOMAS. Do you think you save $600 million a year?

Mr. BEAN. Yes, sir.

Mr. OSTERTAG. On what basis do you say that?

Mr. BEAN. This is on the basis of actual comparison of items and "horseback" guessing.

Here is a list of items, for instance, that is significant. Here is a toggle switch. We paid 14 cents for it. The wholesale price is 22 cents. The over-the-counter price is 45 cents.

For a small flashlight battery we pay 5 cents. The wholesale price is 10.3 cents, and the price is 20 cents on the market.

Mr. OSTERTAG. The saving you refer to, is that a saving to the Government, generally speaking, over market prices?

Mr. BEAN. Yes.

Mr. OSTERTAG. But not on the basis of what other agencies might acquire the same product for?

Mr. BEAN. I would say yes, sir, it is. I can speak to agencies, too, if necessary. I have some information on that subject. Would you care to discuss it off the record?

Mr. THOMAS. You can discuss it on the record.

Mr. BEAN. I would like to discuss it off the record, if I may.

Mr. THOMAS. All right.

(Discussion off the record.)

OTHER GOVERNMENT SUPPLY SYSTEMS

Mr. THOMAS. This comparison ought to be on the record, gentlemen. Go ahead. You are talking about something that is not a foreign subject to this committee.

Mr. BEAN. My study of the operation in Long Beach, which I think we understand fairly well, and because of the fact it is not a large operation, if that was split between our three western operational units we could absorb this because we already have the space and

have enough people to take care of this small volume of business and it would not cost the Government anything.

I can do the same thing in Chicago. I might have to put two or three people on in the warehouse to take care of the additional business, but this business of paying long-haul freight on canned goods such as tomatoes could be greatly reduced.

Mr. THOMAS. That is a small part of their business. They have many hospitals and domiciliary facilities and the vast majority of their procurement is made in the town where the installation is located, everything with the exception of a few canned goods, flour, fats, and so forth, but day-to-day items like meat, sugar, fruit, fresh vegetables, which may be 65 or 70 percent of the total, they buy in the town where the installation is located.

Mr. BEAN. It may be that much but there is no necessity, in addition to that, for having a separate warehouse system, especially one where they are so scattered.

Mr. EVINS. You have discussed that with them several times?

Mr. BEAN. Yes. We are discussing it now.

There is one other point in this thing that I think very important, and that is you cannot consider our system as just a few warehouses scattered across the country. We buy goods that are not carried in the stores and distribute them at lower cost, and the bigger part of our business is schedule business which is at very low cost. Our store operation costs $9.09 per hundred dollars of sales. Our nonstores items that we buy cost us $2.28 per $100 of purchases. Our schedules, with everything in, cost us 23 cents per $100 of purchases. Our total cost on all our distribution, space, buying, inspection, standards, cataloging, and administrative is $3.50 a hundred, and I will stack that against anybody and also invite an audit.

Mr. THOMAS. That is pretty good language. Go ahead.

Mr. OSTERTAG. Is this basically a matter of cost of distribution or is it one of volume?

Mr. BEAN. Volume and distribution.

Mr. OSTERTAG. Both?

Mr. BEAN. Both.

WAREHOUSE UNIT COST

Mr. THOMAS. As he has just pointed out, the biggest part is sales from the catalog and the expense of the catalog sales is in the office. His big expense per dollar unit is in his warehouses.

Mr. BEAN. That is right.

Mr. THOMAS. But even that expense is less than 10 cents on the dollar, is it not?

Mr. BEAN. $9.09 on a hundred dollars.

Mr. THOMAS. We will just call it 9 cents, then. And that is where you handle 150,000 or 160,000 items.

NUMBER OF WAREHOUSES

How many warehouses do we have now?

Mr. BEAN. We have a lot of little places now. We have 31. These are satellite places.

Mr. THOMAS. How many large ones?

Mr. BEAN. Out of the 31 locations, 11 are major depots.

Mr. THOMAS. How many satellites do you have out of Chicago?

Mr. BOUTIN. We have two. We are in the depot in Chicago and we are also downstate.

Mr. BEAN. We are in Shelby, Ohio, and we have a small amount of space in the old quartermaster building, in Chicago.

COST OF AUTOMOBILE TIRES

Mr. THOMAS. What about automobile tires?

Mr. BEAN. Automobile tires are purchased at favorable prices.

Mr. THOMAS. What do you pay for them? What is the wholesale cost and what is the retail cost?

Mr. BEAN. Here is an example, a 4 ply, 7.50x14, ——

Mr. THOMAS. What is that for, a Chevrolet?

Mr. BEAN. A Ford or Chevrolet. We are paying $14. The wholesale price is $17.64; and the retail price is $27.95.

Mr. THOMAS. How many ply is that?

Mr. BEAN. 4-ply.

Mr. THOMAS. You mean to say you are buying that tire cheaper than Sears, Roebuck?

Mr. BEAN. It is hard to tell. Montgomery Ward and Sears, Roebuck do a contract business where they write their own specifications and it is difficult to compare them.

Mr. THOMAS. They are standard 4-ply tires?

Mr. BEAN. You really cannot compare them with Ward's or Sears'.

Mr. THOMAS. Why not?

Mr. BEAN. Because they do not go through the regular process of buying the items from the manufacturers. They have their own specifications and make them in a separate plant to those specifications.

Mr. OSTERTAG. Are they inferior?

Mr. BEAN. Not necessarily. They make very good tires, both of them.

Mr. THOMAS. Can they not buy that tire cheaper than you can? How would they compare?

Mr. BEAN. I do not know.

Mr. THOMAS. You buy as many as they do; do you not?

Mr. BEAN. I am not sure about that.

Mr. OSTERTAG. This $14 is a manufacturer's price; is it not?

Mr. BEAN. That is what he charges us. The wholesale price is $17.64. We buy it for $14.

Mr. OSTERTAG. From the manufacturer?

Mr. BEAN. Yes.

Mr. OSTERTAG. But that does not include transportation cost?

Mr. BEAN. Most of the tire prices include delivery to any leading city.

Mr. THOMAS. Do not Sears and Montgomery Ward get them cheaper than you do? They say they want them according to their plans and specifications and will take the entire output of a manufacturer and they will come up with probably the same tire you are buying. It is the plans and specifications that count, it is not, the rubber content, how many plys, whether there is nylon in it, and so on?

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Mr. BEAN. Whether or not the person can manufacture them as cheaply on that basis, I have no way of knowing.

Mr. THOMAS. It is not generally talked of in the trade?

Mr. BEAN. Not at all. It is a very great secret with both of them.

Mr. THOMAS. Sometimes you hear it whispered around you can go to Sears, Roebuck and Montgomery Ward and buy a tire as cheaply as from your schedule.

Mr. BEAN. I doubt it very much.

Mr. THOMAS. What is your doubt based on?

Mr. BEAN. Because we have shopped Sears and Montgomery Ward stores for the same kind of merchandise.

FURNITURE PRICES

Mr. THOMAS. What about your furniture?

Mr. BEAN. Our prices on furniture—for example, here is a typewriter desk, $76. The wholesale price is $138.15, and the retail price is $230.25. This is less than half the retail price.

Mr. THOMAS. Is that generally true with all your wooden furniture?

Mr. BEAN. Yes.

Mr. THOMAS. We wanted some chairs for this committee room a couple of years ago and we requested the clerks to find some chairs and the prices and they got your catalog and looked at it and it was too rich for our blood so we just said "No." You wanted about $150 for the chairs, so we took the ones we had and fixed them up.

What was the price for the chairs? Get out your schedule and see what the chairs cost. You do not mean to say if we bought that same chair downtown from some merchant we would have to pay $300 for it?

Mr. BEAN. Yes, sir.

Mr. OSTERTAG. What is the general markup on furniture?

Mr. BEAN. In the trade?

Mr. OSTERTAG. Yes.

Mr. BEAN. They just multiply it by 2.

Mr. THOMAS. They have to have a 100-percent markup. Look at all the storage costs they have.

Look at your schedules and see about these chairs.

Mr. BEAN. I do not think we have anything in stock that is similar to this.

Mr. MCGEE. We do not have the chairs you are talking about.

Mr. THOMAS. We are just asking for chairs.

Mr. MCGEE. We have a regular office chair but not this banker's type chair.

Mr. THOMAS. What type?

Mr. MCGEE. This banker's type chair.

Mr. BEAN. That is the trade name. He is not being facetious.

Mr. MCGEE. We do have a chair somewhat similar for $28 in the store stock catalog.

Mr. THOMAS. What would this chair cost off your schedule?

Mr. BEAN. We do not have a chair like this on schedule. This is a handmade chair. It is made with a lot of loving care.

Mr. THOMAS. What is the difference if it is handmade or not. They have all sorts of modern machines for woodworking. What do you mean by handmade?

Mr. BEAN. That is the way these were made. There are not many people who do that now.

Mr. THOMAS. Furniture is pretty high, is it not?

Mr. BEAN. Yes, sir.

Mr. THOMAS. What part of the furniture is made by hand and what part is machine made?

Mr. BEAN. All ours is machine made.

Mr. THOMAS. Is not all furniture machine made?

Mr. BEAN. No. A great majority of it is, but there is a lot of it that is not.

Mr. BOUTIN. I know a factory at home where they make the real fine furniture for people willing to pay the price. It is still made as it was 200 years ago, all by hand. Even the inlays are all by hand. I have gone in there by the hour and watched them make it. Almost all their help comes from abroad in this factory. It is a skill handed down from father to son.

TIRE PROCUREMENT FOR THE AIR FORCE

Mr. THOMAS. What about your automobile tires? Are you buying tires for the Air Force now too?

Mr. BEAN. Automobile tires; yes, sir.

Mr. THOMAS. Are you buying them for the Army?

Mr. BEAN. No.

Mr. THOMAS. FAA has planes of their own. Do they buy their airplane tires from you?

Mr. BEAN. No, I think they have an agreement with the Air Force.

Mr. THOMAS. Can the Air Force buy them cheaper than you can?

Mr. BEAN. They have recently bought them cheaper than we did.

Mr. THOMAS. How do you account for that?

Mr. BEAN. We were buying on a different basis for them at the time the schedule was in effect.

Mr. THOMAS. Why did you not get that cheap price?

Mr. BEAN. When we were buying, the Air Force felt they had to have a stockpile of tires to maintain production sources for mobilization purposes which had to be turned and had to be manufactured to their specifications, and that probably brought the price up.

Mr. THOMAS. What do you mean when you say they had to be turned?

Mr. BEAN. They had to be kept fresh all the time.

Mr. THOMAS. What does that have to do with the initial cost of the tire?

Mr. BEAN. The labor and cost of maintaining the stockpile and sources of supply.

Mr. THOMAS. Is it not the same tire whether used 30 days after it is bought or 2 years?

Mr. BEAN. The manufacturer was probably maintaining a stockpile and was charging for that in his price. When it was determined it was no longer necessary to do that, the Air Force was able to get a lower price, for a definite large quantity.

GAO AUDIT OF MANUFACTURERS' COSTS

We asked the General Accounting Office to make an audit of the manufacturers' production costs at that time to see whether or not there was anything about this that was very wrong. GAO does not like it. I have a prepared statement which summarizes the situation.

Mr. THOMAS. Read it into the record.

Mr. BEAN (reading):

From 1936 to 1960, aircraft tires were procured through Federal supply schedule term contracts. The procurement procedures were premised on the special problems involved in purchasing aircraft tires, including the constantly changing specifications, the need for maintaining the only six established sources to assure adequate supply in the event of a national emergency, and the requirement for constant product improvement to develop aircraft tires capable of meeting the increasingly critical applications on a timely basis.

Mr. THOMAS. What does that mean?

Mr. BEAN. Airplane designs were being changed very rapidly at that time carrying heavier loads and bigger engines, and there had to be a constant reevaluation and change of specifications in order to keep up with the type of aircraft being used.

Mr. THOMAS. Go ahead.

Mr. BEAN (continuing reading):

The pattern of procurement described in the draft report developed in response to this situation. Both the Attorney General and the Federal Trade Commission have been aware of the antitrust aspects that might be involved and the Renegotiation Board has examined the price structure in an effort to renegotiate any excess profits. However, Federal requirements had to be met in the most feasible manner that could be provided. Federal supply schedule prices compared to published industry price lists were approximately 49 percent below commercial list prices and approximately 4 percent below list prices to commercial airlines.

We knew that this 49 percent could be misleading because, after all, the Air Force was the principal user, and suppliers could adjust commercial prices as desired. [Continuing reading:]

In 1960, the Air Force determined that the need for maintaining the mobilization base for aircraft tires no longer existed. The Air Force, Navy, and GSA agreed to a price of $100,000 per order limitation in subsequent schedule contracts, which theretofore had contained no maximum order limitation. Schedule prices did not increase as a result. Thereafter, in response to Air Force bid invitations for large definite quantity requirements, suppliers bid the same prices as provided in the GSA schedule contracts.

GSA, in an effort to acquire cost data for assistance in negotiating better prices, then requested GAO, under the examination of records clause included in the schedule contracts, to examine the pertinent books and records of the manufacturers. This clause permitted only the GAO and its representatives to examine these books and records.

The GAO draft report is based upon their study of the cost data so obtained. Effective February 1, 1961, following establishment of the $100,000 limitation in schedule contracts, a number of items were deleted from the Federal supply schedule. This led to reduced interest on the part of the manufacturers in supplying the less-attractive items that remained and, eventually, to discontinuance of the schedule as of August 31, 1962, when it became apparent that nearly all of the suppliers were unwilling to participate except on a highly selective item basis.

The draft report concludes, upon the basis of comparison with prices obtained under Air Force contracts, that the negotiated procurements by GSA under Federal supply schedule contracts did not obtain reasonable prices. It seems apparent in the light of the above-related background, that direct price comparisons for the 1960–61 transition period under the large definite quantity

method of procurement with prices available under the Federal supply schedule requirements method of procurement is unrealistic. Additional factors which could affect prices are (1) changes in specifications on some tires, (2) lowering of quality as a result of direct competitive procurement, (3) the extent to which supplier's investment in testing facilities and research and development costs were reflected in Federal supply schedule prices.

The draft report recommends that the Administrator of General Services initiate as soon as possible a critical evaluation of contracting practices used in establishing prices for all Federal supply schedules to assure reasonableness of prices. We have initiated this review. However, it was known from the outset that the aircraft tire schedule was unique in that it had contained no maximum order limitation, was founded on a mobilization base concept, only a few ordering offices placed orders under the schedule, the type of product required constantly changing specifications to meet critical applications, and was the only commodity covered by negotiated schedule contracts where Government purchases represented the majority of industry production.

With regard to the balance of the negotiated Federal supply schedules contracts, where Government purchases represent only a small percentage of total industry production, we feel reliance can be placed upon competition in the commercial market to produce a basis for determining reasonableness of prices to the Government. This concept is fully supported by the Congress in the recently enacted Public Law 87-653 which directs certain Federal agencies to obtain cost data, but does not apply this requirement "where the price negotiated is based on adequate price competition (or) established catalog or market prices of commercial items sold in substantial quantities to the general public." Where such standards for measuring reasonableness of price exist, it would not be economical or in the Government's interest to incur the additional expense of developing and evaluating contractors' cost data.

The second recommendation in the draft report is that GSA, together with DOD, undertake to negotiate appropriate price adjustments for aircraft tires procured under Federal supply schedule contracts. We have initiated action to review cost data and other information bearing on the question of price adjustment. We shall conclude our studies and evaluations at the earliest possible date and advise GAO of our findings and action taken.

Mr. THOMAS. Who is buying the Air Force tires now?

Mr. BEAN. The Air Force.

Mr. THOMAS. Why are they doing it? Are they able to buy cheaper than you are?

Mr. BEAN. Yes, when they make single purchases of large quantities.

Mr. THOMAS. How were you buying them?

Mr. BEAN. They were buying in small quantities according to their needs because at that time there were so many changes in the specifications for the tires themselves.

Mr. THOMAS. What is the upshot of the criticism of the General Accounting Office that you have just read?

Mr. BEAN. Well, it would seem there might be some collusion, and that they might have overcharged even on this basis.

Mr. THOMAS. Overcharged whom, the GSA?

Mr. BEAN. Yes, on the GSA contracts.

Mr. THOMAS. Who were your suppliers?

Mr. ENGLISH. We had contracts with all the producers in the industry. There were six of them which represented the total production capacity.

Mr. OSTERTAG. Are your contracts subject to renegotiation?

Mr. BEAN. Not all of them, but these were.

Mr. THOMAS. If the Air Force buys the tires it is subject to renegotiation. If you buy them it is not?

Mr. BEAN. Both are.

Mr. OSTERTAG. That is what I was leading up to.

Along that same line, under your supply arrangement as compared with the military, there is no obsolescence and oversupply as compared to what they find themselves involved in; is that correct?

Mr. BEAN. That is correct.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

CORRECTION OF RECORD ON PURCHASE OF AIRCRAFT TIRES

STATEMENT SUBMITTED BY GENERAL SERVICES ADMINISTRATION CORRECTING CERTAIN ELEMENTS OF ABOVE TESTIMONY ON AIRCRAFT TIRES

From some of the answers given above, certain misleading impressions could be gained. The GSA Federal supply schedule contracts for aircraft tires discussed above were entered into on the basis that the Air Force needed to maintain production sources for all types and sizes of aircraft tires for mobilization purpose, and in the prices quoted by the suppliers included the cost of testing facilities and research and development required due to rapidly changing specifications.

Subsequent to a determination that the mobilization base was no longer required, the Air Force purchased large, definite quantities of aircraft tires at lower prices than were contained in the Federal supply schedule contracts. The reasons for these lower prices were mainly attributable to the method of contracting and change in concept.

The statement concerning obsolescence and oversupply is misleading. The Air Force stocked aircraft tires at use points, but because of the ready availability of multiple sources of supply for all sizes and types of tires under the Federal supply schedules, the Air Force inventories could be held to a minimum since orders could be placed immediately under Federal supply schedule contracts without advertising for bids.

The Federal supply schedule contracts for aircraft tires were unique in that (1) they contained no maximum order limitation; (2) they were founded on a mobilization base concept; (3) only a relatively few ordering offices placed orders under the schedule; (4) at that time, aircraft tires required constantly changing specifications to meet critical applications; and (5) aircraft tires were the only commodities covered by negotiated schedule contracts where Government purchases represented the majority of industrial production.

Action has been initiated to review cost data and other information bearing on the question of price adjustment for aircraft tires procured under the former Federal supply schedule contracts. The Federal supply schedule contracts for aircraft tires were discontinued as of August 31, 1962.

METHOD OF PROCURING GROUND TIRES

Mr. EVINS. When you buy tires do you get prices from all major manufacturers and how do you make a selection?

Mr. BEAN. For ground tires, it is done on the basis of standard specifications in the industry.

Mr. EVINS. You need x quantity of tires. How do you procure them?

Mr. BEAN. If we need a large quantity, not available under the schedule, we will put out an invitation for bid to every manufacturer that can produce that tire.

Mr. EVINS. And when the bids come in, are they close?

Mr. BEAN. The low man gets the business.

Mr. EVINS. The low man gets the business?

Mr. BEAN. Yes.

Mr. EVINS. Do you buy Goodyear tires or what kind?

Mr. BEAN. It depends on the low man.

Mr. BOUTIN. From whom are you buying right now?

Mr. ENGLISH. The schedule contracts, of course, are available for the agencies to place orders against so that a given agency having a requirement for tires right now would place it on the basis of service and availability, which means under the contract he would draw on the manufacturer's outlet which was most convenient to him at the most advantageous price.

Mr. EVINS. Does the agency get the tires from you?

Mr. ENGLISH. The agency places its own order.

Mr. EVINS. You just serve a purchasing agent for him?

Mr. BEAN. Yes. We do not stock tires.

Mr. EVINS. Have you ever considered the system used by major trucking companies and bus lines of replacing their tires when they have had a certain use?

Mr. BEAN. Yes. We know about that and have had studies on them.

Mr. EVINS. You are not finding uniform or identical bids or anything that would arouse suspicion to turn it over to the Justice Department?

Mr. BEAN. No, sir.

Mr. EVINS. You did have your suspicions aroused in the case of the Air Force tires?

Mr. BEAN. Yes. That is why we asked the General Accounting Office to make this study.

Mr. THOMAS. Any other general questions, gentlemen?

PURCHASING FOR OVERSEA SHIPMENT

Mr. BEAN. One of the gentlemen was asking yesterday about the oversea-gold-flow arrangement we have made with the Army, and I have some additional information here which I think is very interesting.

Mr. EVINS. If you have some information that would help to keep the gold in this country, we would be glad to hear it.

Mr. BEAN. Last year, for oversea bases——

Mr. THOMAS. Where is that setup, in Wiesbaden?

Mr. BEAN. In Sembach. That is close to Wiesbaden. Last year we shipped overseas $73 million in merchandise. That stopped that much from being spent overseas.

Mr. THOMAS. What was the nature of the items?

Mr. BEAN. All kinds of common-use items in our catalog and schedules.

Mr. THOMAS. What would be a half dozen of the biggest dollar items you would ship?

Mr. BEAN. Furniture, refrigerators, ranges, washing machines, floor wax, detergents, paper items, tools——

Mr. OSTERTAG. You ship to them, is that right?

Mr. BEAN. Yes.

Mr. OSTERTAG. More than you have before?

Mr. BEAN. Yes. This is a new program which came out at the time the President asked for this gold flow to be stopped.

This year we expect to ship overseas $100 million.

Mr. THOMAS. What stock are you carrying at Wiesbaden?

Mr. BEAN. No stock at all. We have a complete setup of schedules and catalogs covering more than 700,000 items we have available for

supply. We have only samples in that place. But from these, orders are made up and sent over real fast.

HANDLING OF OVERSEA ORDERS

Mr. THOMAS. Where is the order executed?
Mr. BEAN. Overseas, and it is sent to New York.
Mr. THOMAS. Your New York office handles it?
Mr. BEAN. The New York regional office writes the order, expedites the order, does the quality control, does the packing, and puts it on the dock.
Mr. THOMAS. Where is the control executed?
Mr. BEAN. At the New York regional office.
Mr. THOMAS. It is handled at the factory?
Mr. BEAN. Inspection of merchandise is usually at the source.
Mr. THOMAS. What is your port of embarkation, New York?
Mr. BEAN. That is correct.
Mr. THOMAS. Do you have any other for Europe?
Mr. BEAN. We have another one in New Orleans, which takes care of the Mediterranean area and Africa, and one in San Francisco that takes care of most of the Far East.
Mr. BOUTIN. And one in Seattle for the Far East, also.
Mr. THOMAS. Where are you buying?
Mr. BEAN. At each of the shipping locations we do buying.
Mr. SPANGLER. For New Orleans our buying office is at Fort Worth.
Mr. THOMAS. That is the regional office?
Mr. BEAN. Yes.
Mr. THOMAS. Off the record.
(Discussion off the record.)

LIMITATION ON REGIONAL BUYING

Mr. THOMAS. What is the limitation on any buying office before it has to go to central office?
Mr. MCGEE. $100,000. Any proposed award exceeding $100,000 has to be referred to the central office for review.
Mr. THOMAS. Do all your buying orders originate in the field?
Mr. BOUTIN. Yes, sir.
Mr. THOMAS. Off the record.
(Discussion off the record.)

BOARD OF CONTRACT APPEALS

Mr. THOMAS. The Appeals Board is under the jurisdiction of and assigned to the Office of the Administrator?
Mr. BOUTIN. Yes.
Mr. THOMAS. What is their jurisdiction? What do they do?
Mr. BOUTIN. They have the same jurisdiction as the Administrator in determining any single appeal that is made to GSA as a result of any of our contracts. The Administrator does retain the right at any time to direct the Board to render an advisory opinion instead of a decision. I have never exercised that right.
Mr. OSTERTAG. This is not an appeal from your decision?
Mr. BOUTIN. This is an appeal from the decision of the contracting officer.

Mr. THOMAS. Where does most of their business originate?

Mr. BOUTIN. Most is in the PBS area, decisions of the contracting officer as to whether or not additional money will be allowed for a change order and whether the contracting officer was justified in requiring them to do certain things in the performance of their contract.

Mr. THOMAS. How many cases did they handle in fiscal year 1962?

Mr. BOUTIN. They handled during fiscal 1962 a total of 101 cases.

Mr. THOMAS. In fiscal 1962?

Mr. BOUTIN. Yes.

Mr. THOMAS. Is there any breakdown on them?

Mr. BOUTIN. I do not have it here, Mr. Chairman.

Mr. THOMAS. You have the Board of Contract Appeals, one chairman, GS–15; four 15's——

Mr. BOUTIN. They are all grade 15's, Mr. Chairman.

Mr. THOMAS. And seven other positions. So they have a total of 12 positions and they handle 101 cases?

Mr. BOUTIN. These are the cases completed. In addition to the cases completed they had hearings and were preparing the material on a good number more. For instance, they had completed hearings on an additional 46.

Mr. THOMAS. That is less than 9 cases a month, 8½ cases a month.

Mr. BOUTIN. As of the 30th of June we had pending 191 cases.

Mr. THOMAS. How many of those cases appealed has the Attorney General been invited to look at?

GAO INTEREST IN BOARD OF APPEALS

Mr. BOUTIN. I do not think the Attorney General has been invited to look at any of them, Mr. Chairman. I think, however, some of the decisions of the Board have been further appealed to the General Accounting Office. We have never had GAO reverse a decision of the Board.

Mr. THOMAS. I meant the General Accounting Office. What did I say?

Mr. BOUTIN. You said the Attorney General.

Mr. THOMAS. Out of your 101 cases how many were the General Accounting Office asked to look into?

Mr. BOUTIN. Mr. Chairman, we do not ask the GAO to look into any of the cases that the Board has an appeal pending on. However, the appellant may appeal to GAO if they feel that the decision of the Board of Contract Appeals is improper.

Mr. THOMAS. And GAO has never reversed one of the decisions of the Board of Contract Appeals?

Mr. BOUTIN. I know of no such case that has been reversed by GAO.

Mr. THOMAS. Do you know how many cases the GAO has reversed in a calendar year for any agency of the Government?

Mr. BOUTIN. I know they have reversed us on other matters.

Mr. OSTERTAG. It is difficult for me to understand what power the GAO has in this matter.

Mr. MOODY. All our contracts contain a disputes clause under which the decisions are made by the contracting officer in the original instance. Under the clause in the contract a contractor who is not satisfied can appeal that decision to the agency head.

Mr. THOMAS. What is the yardstick used in evaluating the correctness of one of these Appeal Board decisions?

Mr. BOUTIN. The yardstick of law?

Mr. THOMAS. Yes.

Mr. MOODY. It is my understanding that the decisions of the agency on questions of fact arising under the disputes clause are final and conclusive in the absence of fraud and they will not be reviewed by the GAO; the GAO will review them only on questions of law.

Mr. THOMAS. What it adds up to, the GAO takes the position that the facts found by the Board are binding on them and in the absence of some outstanding fraud they leave the parties where they are and say, "After all, this comes in your jurisdiction and if you want to pull a bonehead that will be your grave and not ours." So what it all boils itself down to, the GAO does not do too much in these contract disputes. Is that right?

Mr. MOODY. They only get into those cases which the contractor takes to them on appeal from the agency. We do not refer any to them.

Mr. THOMAS. In this case I discussed off the record I think the decision of the GAO was that in the absence of fraud on its face—it was bad judgment but it was in the contracting officer's authority to do that so they were not much kinder to the taxpayer than to GSA.

OVERSEA SUPPLY CUSTOMERS

Mr. OSTERTAG. You mentioned the fact you had supplied about $100 million to the Air Force but you limited that to the Air Force. What would be the overall figure?

Mr. BEAN. I was going to continue by saying next year we plan to ship $150 million overseas. We have recently made an agreement with the Army whereby they will work with us on the same basis, use our catalogs and schedules for their oversea installations. We expect our business on that basis to go up to $225 million. This again, however, also includes the State Department, the Peace Corps, and AID.

EXPECTED INCREASES IN OVERSEA SUPPLY

Mr. OSTERTAG. Up to now, the oversea supply through GSA from continental U.S. sources has been limited to about $100 million?

Mr. BEAN. That is correct, sir.

Mr. OSTERTAG. You anticipate under this plan an arrangement that that will be substantially increased?

Mr. BEAN. That will be increased this coming year and we expect $225 million.

Mr. OSTERTAG. How about the Navy? Are they involved in this?

Mr. BEAN. Not to a great extent. They only have a few bases and they are at tidewater and supplied by their own ships, out of their main depots on the east coast and west coast.

Mr. OSTERTAG. Where does the Navy obtain its supplies?

Mr. BEAN. The Navy buys some of these items from us.

NONSTORES BUYING

Mr. SPANGLER. May I include in the record the answer to the statement as to how much was bought in the regions and how much was bought by——

Mr. THOMAS. I was just coming back to that item.

Thank you for your help.

Mr. SPANGLER. In fiscal year 1962 there was $71 million bought by the regions and $122.1 million by NBD in what we call nonstores items.

Mr. THOMAS. What do you mean by that?

Mr. SPANGLER. National Buying Division.

Mr. THOMAS. That is in your New York office?

Mr. SPANGLER. That is in Washington.

Mr. THOMAS. Is that from schedules?

Mr. SPANGLER. That is all nonstock purchases, anything that might have been bought——

Mr. THOMAS. $71 million in your regional offices?

Mr. SPANGLER. Yes, sir; $122.1 million in our central office.

Mr. THOMAS. Is that special buying not set out in your catalogs?

Mr. SPANGLER. Yes, sir.

Mr. THOMAS. What does that total of your gross business?

Mr. SPANGLER. That should be about $193.1 million.

Mr. THOMAS. In round figures $200 million.

What business do you do?

Mr. BEAN. It is actually $1.4 billion.

Mr. THOMAS. What are you buying out of the catalog and stores? I believe you said around $800 million, and that is 25 percent of your business there. What control do you have over that?

Mr. BEAN. The nonstores is $200 million and buying from schedules $840 million.

Mr. THOMAS. I missed the $40 million part. Go ahead.

Mr. SPANGLER. May I also add that this regional review by the central office is based on any formal invitation for bid over $100,000? The award must be reviewed in the central office. Any negotiated award over $50,000 must also be reviewed in Washington by our central office.

Mr. THOMAS. How big a unit do you have in each one of your regional offices doing this buying? What are their qualifications, and what are their grades?

Mr. SPANGLER. The grades range from grade 7 up to grade 12.

TYPES OF NONSTORES ITEMS

Mr. THOMAS. What are some of the items they do that buying on? What are some of the items they buy in the regional offices? Why do you have to go to the regions to get them?

Mr. SPANGLER. It does not go to the regions. It comes into the regions because the requirements are generated from agencies that are within the regional area. They flow, therefore, into the regions and not into Washington. Under our criteria, depending on the commodity, they do the buying in the regions up to reasonable limitations. It

is in the areas of things like refrigerators, ranges, special items for PBS like parts, motors, generators, and cables.

Mr. THOMAS. Those are common-use items.

You do not have a regular schedule for them?

Mr. SPANGLER. Not all of these items are on the schedule, no sir.

Mr. BEAN. Many of these are special purpose items which you could not afford to carry in stock. There is only an occasional demand.

CONTRACTING FOR NONSTORES ITEMS

Mr. THOMAS. Why do you not do your buying in overall contracts? Why does that not cover them?

Mr. BEAN. For the reason we do not have enough demand to do it on a contract basis. We have to do it as they are needed. For instance, items that are not sold readily.

Mr. THOMAS. What kind of prices do you get when you buy them?

Mr. BEAN. We get less than the wholesale price.

Mr. THOMAS. That is what I am getting at. You are no more than the small jobber for a quarter of your business?

Mr. BEAN. Except that we get a better price than he does and there it is much cheaper for the Government to buy these odds and ends on this basis than to buy them or to carry them in stock for months and months.

Mr. THOMAS. Why can you not ship them with the big overall contracts?

Mr. BEAN. There is not enough volume.

Mr. THOMAS. You said you have $200 million worth of it and that sounds like a pretty good sized operation.

Mr. BEAN. All over the United States there are many, many items——

Mr. THOMAS. The volume on each item is not enough?

Mr. BEAN. Each one item is not enough.

Mr. SPANGLER. It varies by locality. The items that the region in Denver is buying varies considerably.

Mr. THOMAS. What are they buying in Denver?

Mr. SPANGLER. For example, in Denver they do a lot of buying in support of the Indian Service, specialized food, rations that we do not buy in other parts.

Mr. THOMAS. A bean is a bean, is it not?

SPOILAGE AND LOSS ON INVENTORY

Mr. OSTERTAG. You have been calling attention to the savings and the general benefits, but what about the matter of obsolescence, surplus, waste and spoilage and matters of that kind? Certainly you encounter a certain percentage of that, do you not?

Do we have any overall picture on that?

Mr. BEAN. I think it is less than 1 percent of sales.

Mr. SPANGLER. A small fraction of 1 percent.

Mr. BEAN. We get a three-time turnover on this volume, it does not stand around very long.

Mr. OSTERTAG. Isn't it true that some of these items are bound to be obsolete during the course of events to the point where there is no means of distribution or sale?

Mr. BEAN. We only carry in our warehouses things which have a continuous use and things which are very staple. When somebody wants a pint can of paint, which we do not carry, that is a local purchase, and we tell them to buy it on the local market, because it is not feasible to handle that and save any money on it for the Government.

NUMBER OF ITEMS IN STOCK AND ON CONTRACT

Mr. OSTERTAG. What percentage of your entire supply system is a matter of stock on hand as compared with what you have and what might be termed orders for an item and actually automatic disposal of?

Mr. BEAN. In our warehouses we have now——

Mr. THOMAS. Give him a good round figure.

Mr. BEAN. 13,000.

Mr. THOMAS. One-third?

Mr. BEAN. One-third of the items which we ship are in the warehouse and ready for shipment.

Mr. THOMAS. That is what he asked you exactly.

Mr. BEAN. We have over 1 million items on contract.

Mr. OSTERTAG. In other words, two-thirds of it is already on order before you purchase it?

Mr. THOMAS. That is right.

Mr. BEAN. Practically, yes.

Mr. OSTERTAG. It is disposed of and you have a means to distribute it? In other words, you do not stock it?

Mr. BEAN. We do not stock it.

Mr. THOMAS. You bought it for a particular customer?

Mr. BEAN. We contract for it for many customers and do it on an annual basis. This is at a very low cost of 14 cents a hundred dollars.

Mr. EVINS. How much do you get in the way of brokerage fees on these orders?

Mr. BEAN. It ought to be a lot of money but I have not received any yet.

Mr. THOMAS. He meant how much do you save?

Mr. BEAN. I am sure that on the ones the manufacturer carries in stock we are saving at least 30 percent there and about 40 percent in the things——

Mr. THOMAS. He is talking about where you are really serving as a good jobber on those small items and that is what it amounts to?

Mr. BEAN. Even on the small items our prices are lower.

Mr. THOMAS. You even beat the jobbers' prices?

Mr. BEAN. That is right.

Mr. EVINS. In round figures that you can throw out here they total two-thirds of your purchases for other customers and which you never put in your warehouse? How much do you save on that two-thirds?

Mr. BEAN. Here are the figures in the stores. This year, or rather next year, we will sell $364 million.

Mr. THOMAS. Store sales?

Mr. BEAN. The difference between that and the $1,480 million is what is shipped directly from the source to the customer.

Mr. THOMAS. Let's go back to your original figure of a while ago of $600 million saving.

Mr. BEAN. I am going to back down on that.

Mr. THOMAS. He is not asking you to back down but he is just asking you to state it.

Mr. BEAN. I will state it.

Mr. SPANGLER. If I understand your question correctly, you wanted to know what our projected savings were on our procurement other than the stock program?

Mr. EVINS. That is right, all in this operation.

Mr. SPANGLER. In 1962 we figure we saved the Government on that part of the program $129.5 million. On the total program, including the stores, it would run about $222 million.

Mr. EVINS. Offset against that is the $34.9 million salary item and $13.5 million for the general supply fund which we appropriated for last year.

Mr. SPANGLER. I am sorry. I could not hear you.

Mr. EVINS. You said that $200 million earnings were gained through savings through your total operations last year, but the committee appropriated for you about $48 million.

Mr. BOUTIN. Except that on our general supply fund, that is just converted to assets. It is a revolving fund but the other appropriation is for operating expenses.

Mr. EVINS. It is pretty much exhausted every year?

Mr. SPANGLER. This does not include the administrative savings in the agencies themselves, because they do not have to go through the procurement process, including the issuance of invitations to bid, announcements of bids, evaluation of bids, awarding of contracts, and so forth.

Mr. THOMAS. Let us get these figures straightened out.

You have given one set of figures and Mr. Bean another. Let us get together at this point in the record and get this savings point clear.

Assuming we are going to do $1.4 billion of business in 1964 and $800 million of which is schedules—these are approximate figures, but is that correct?

Mr. BEAN. There is $200 million nonstores and $840 million schedules. A schedule is a contract we have in being and a nonstores item is one which we buy as needed.

Mr. THOMAS. Break down your classifications that make up your total of $1.4 billion as between your schedules, nonstores, and stores.

Mr. BOUTIN. Stores stock, we are estimating $374 million; direct delivery of store items, $66 million; schedules, $840 million; nonstores, $200 million; for a total of $1,480 million.

Mr. THOMAS. On all classification of sales, they total $1.4 billion but what amount of money do you think you save the Government?

Mr. SPANGLER. $432.3 million.

Mr. THOMAS. I thought Mr. Bean was using a figure of $600 million.

Mr. BOUTIN. A little generous.

Mr. BEAN. I was being optimistic.

Mr. THOMAS. Let us stay with round figures, $400 million; that is quite a saving but break that down for Mr. Evins into your three classifications.

What do you save on your stores? That is the highest cost operation.

Mr. SPANGLER. We will save $134.7 million. On the nonstores we will save $166 million; and on the schedules, the figure is $112.6 million.

I am sorry, gentlemen. I really am. I transposed a figure.

Mr. BOUTIN. What is the right one?

Mr. THOMAS. Do not change that $400 million figure because if you do we are going to jump out the window. Straighten out your figures and give it to us in a minute.

TIRE PRICES

Mr. EVINS. While he is getting that, tell us how you compare with Sears, Roebuck and Montgomery Ward.

Mr. BEAN. If you add 35 percent to our prices, which they do, we are bigger than Montgomery Ward. We are not as large as Sears, Roebuck and A. & P.

Mr. THOMAS. How do your prices compare?

Mr. BOUTIN. I can give it to you on tires. I have this right here.

Mr. THOMAS. Give it to us.

Mr. BOUTIN. As Mr. Bean said, $14. There are several grades in Sears at $26.22 for one grade and $23.72 on another grade, $21.72 on another, $17.22, $14.72.

Mr. OSTERTAG. Sales price?

Mr. BOUTIN. Sales price.

Mr. BEAN. Ours is a first line tire.

Mr. BOUTIN. Montgomery Ward on a guaranteed tire, $24.75 each, and if you buy four at a time——

Mr. EVINS. The same grade and size?

Mr. JONAS. What if you buy 100,000?

Mr. BOUTIN. They have another price of $23.76 if you buy four at a time. They have another one of $20.65 if you buy them four at a time.

You get all over the place in grade, and that is the problem.

Mr. OSTERTAG. Are these tires comparable to the $14 tire you spoke about?

Mr. BEAN. The tire I am talking about is a first-line tire and that would be their best tire.

Mr. OSTERTAG. There is not too much difference between their retail price and your manufacturer's price?

Mr. BEAN. Yes, sir.

REVISED SAVINGS FIGURE

Mr. EVINS. Have you been able to figure up some more savings and profits?

Mr. SPANGLER. Yes, sir.

For 1964, $285.6 million in total; nonstores is $38.3 million.

The other two figures I gave you are correct.

Mr. THOMAS. Mr. Evins, let us go ahead with the justifications.

FUNCTIONS PERFORMED BY THE FEDERAL SUPPLY SERVICE

Mr. EVINS (reading):

Functions performed by the Federal Supply Service:

The Federal Supply Service performs all functions of GSA with respect to (1) establishment of efficient supply management practices throughout the Federal Government, and (2) operating a supply system through which common-use commodities are sold to Government agencies both domestic and overseas, and cost-type contractors from depot stocks, retail stores, customer service centers, or by direct delivery from suppliers, whichever is more economical or meets customer demands.

The basic operations are financed from two sources: (1) a single appropriation for all operating expenses, and (2) a revolving fund which initially finances the purchase of commodities, subject to reimbursement by ordering agencies. Whenever possible purchases are made for direct payment by ordering agencies thereby obviating use of the revolving fund.

In addition, a special packaging service, required for export shipments, is available to oversea customers at four port cities (New York, New Orleans, San Francisco, and Seattle), subject to reimbursement from ordering agencies.

Mr. THOMAS. He is coming in for two deficiencies. One is for $30 million for the general supply fund. This is not an expenditure but remains in the fund as an asset of one sort or another.

Among other things it finances receivables and I presume you demand cash on the 30-day basis?

Mr. Evins, this last paragraph ought to be paid attention to.

PROPERTY REHABILITATION

You have your repair shop in one or two of those places, do you not?

Mr. BOUTIN. Nothing to do with this program, Mr. Chairman. We have one at Cheli in Los Angeles for the AID program that comes under——

Mr. THOMAS. You have only one?

I thought you had one at each of those shipping ports, too?

Mr. BOUTIN. No.

Mr. THOMAS. You pay the bill for it or are you reimbursed for it?

Mr. BOUTIN. Completely reimbursed.

Mr. THOMAS. Just one?

Mr. BOUTIN. Just one. We have two office machine repair shops for our own staff and some we do for the others.

Mr. THOMAS. You do some contract repairing, too, do you not, for furniture and so forth?

Mr. BOUTIN. By contract, yes, but not through——

Mr. THOMAS. I said, contract.

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. How many of those do you have?

Mr. BOUTIN. Our Commissioner of UDS is not here, Mr. Chairman. He could tell us exactly.

We have a lot of contracts out and a lot with the Bureau of Prisons. The Bureau of Prisons is a principal source.

Mr. THOMAS. We will go into that in detail later.

DIRECT AND REVOLVING FUND PAYMENTS

Mr. OSTERTAG. In connection with this statement of functions performed, reference has been made to direct payment by ordering agencies. What is meant by direct payment? Is that a 30-day proposition?

Mr. BOUTIN. Whenever we can, Congressman, if an agency wants to buy something we perform the procurement, but rather than our paying the bill and their reimbursing us, the supplier bills them and they pay it directly. It never comes to us at all.

Mr. OSTERTAG. I was confused as to the point of direct payment without it coming out of the revolving fund.

I can see now by your explanation that you merely transfer the charge to them?

Mr. BOUTIN. Yes; it saves time.

Mr. OSTERTAG. They would take it out of their funds almost immediately?

Mr. BOUTIN. That is correct. In fact, on some of these we get payment at the time we enter into the contract for their procurement. Some go through the fund and we get reimbursement from them and some are direct payments. The latter never goes through our system at all.

SUMMARY OF FEDERAL SUPPLY ACTIVITIES

Mr. EVINS. Mr. Reporter, place in the record the tabulation on page 115.

(The page follows:)

Federal Supply Service

Summary of new obligational authority and average employment

	New obligational authority		Average employment					
			Total		Central office		Field	
	1963	1964	1963	1964	1963	1964	1963	1964
A. New obligational authority and related employment, operating expenses, FSS	$41,905,000	$51,000,000	3,144.5	3,880.7	744.0	834.1	2,400.5	3,046.6
1. Supply operations	25,544,300	31,767,000	2,433.4	3,092.1	410.5	465.5	2,022.9	2,626.6
(*a*) Supply distribution	17,751,000	22,486,000	1,531.6	2,020.2	66.5	79.4	1,465.1	1,940.8
Depot operations	12,664,000	16,602,000	1,531.6	2,020.2	66.5	79.4	1,465.1	1,940.8
Space and related costs	5,087,000	5,884,000						
(*b*) Buying operations	7,793,300	9,281,000	901.8	1,071.9	344.0	386.1	557.8	685.8
2. Standards and quality control	5,945,700	6,831,000	599.5	673.9	257.8	289.8	341.7	384.1
(*a*) Supply standards	2,339,000	2,651,000	228.7	257.8	288.7	257.8		
(*b*) Quality control	3,606,700	4,180,000	370.8	416.1	29.1	32.0	341.7	384.1
3. Procurement policy and supply coordination	735,000	827,000	56.7	60.0	56.7	60.0		
4. Service direction	848,000	986,000	54.9	54.7	19.0	18.8	35.9	35.9
5. Administrative operations	8,832,000	10,589,000						
General supply fund	43,500,000	35,000,000						
Total NOA, subtotal employment	85,405,000	86,000,000	3,144.5	3,880.7	744.0	834.1	2,400.5	3,046.6
B. Other employment reimbursements, operating expenses, FSS	(1)	(1)	372.9	506.8			372.9	506.8
Total, employment			3,517.4	4,387.5	744.0	834.1	2,773.4	3,553.4

[1] Funds available not considered new obligational authority in budget schedules.

INCREASES IN OPERATING EXPENSES

Mr. EVINS. This is a summary of new obligational authority and average employment. This gives pretty much the whole picture and in going down the totals for 1963, you say that earlier there was appropriated $85,405,000 and in 1964, you are requesting an appropriation of $86 million.

Let us take up the "Operating expenses" item, Federal Supply Services. In 1963 you had in the central office 744 and you are asking for 834.1 personnel in the central office for 1964. In the field the number is 2,400 in 1963 and in 1964 you are asking for 3,046. That is an increase, both in the central office and the field, for a total of 3,880, as against 3,144 last year.

This is a total increase in personnel in the Federal Supply Service of how many, Mr. Bean?

Mr. TURPIN. 736 man-years for OE, FSS.

Mr. EVINS. Why do you need 736 more people to operate the Federal Supply Service?

Mr. BEAN. This year we expect to do $278 million in store sales.

Mr. EVINS. You have your warehouses and personnel set up and going and it looks to me like you ought to be able to absorb an increase in your business without taking on this many more employees.

Mr. BEAN. That is what we are doing, sir. Our cost right now is $4.56 to pick up and pack and ship goods and we expect to do it for $4.56 next year even though we are going to add an increase in the pay raise.

Mr. BOUTIN. We have a very tough system of standards in the manning of these depots. We only hire to our actual need at a given time and take out the peaks through contract labor. This is in line with the increased business we anticipate doing.

STANDARDS AND QUALITY CONTROL

Mr. EVINS. Let us take another item here, "Standards and quality control." You are increasing from $5,945,000 to $6,831,000, nearly $1 million increase in funds.

You are in the field going from 341 to 384 and in the central office from 257 to 289 for an overall total of 599 to 673.

Why do you need more standards and quality control?

Mr. BEAN. Mr. Ritter, would you speak to that, please?

Mr. RITTER. In our standardization program, we are far from having current standards and specifications to keep abreast of our procurement program. Out of our stores stock items alone, 22 percent do not have specification which permit us to buy to the best advantage competitively. In our quality control organization, we have to inspect the material as it is being procured. Our inspection requirements increase as we procure more for the Department of Defense, since they request that we inspect all of the material shipped overseas. Our increase in quality control is tied directly to the overall procurement volume.

Mr. EVINS. How long have you been working on the catalog? This is in your branch, is it not?

Mr. RITTER. Yes, sir.

Mr. EVINS. Do you have that edited, published, and compile it and complete it?

Mr. BOUTIN. It changes, Congressman, just about as fast as you can think. There are about 30,000 items in civil agencies which drop out every year. They are the items with no recurrence of purchase, that should not be kept in the system. It is like the Sears, Roebuck catalog. Every year there are a lot of changes in items, changes in specifications, and changes in prices.

PROCUREMENT POLICY AND SUPPLY COORDINATION

Mr. EVINS. The next item is "Procurement policy and supply coordination." You ought to have that procurement policy pretty well firmed up and established by now. You are asking for an increase from $735,000 to $827,000.

There are about four new employees in that branch.

Mr. BOUTIN. This is a divisible operation, Mr. Chairman. The procurement policy comes under Mr. Gasque and they actually put together the procurement regulations, Federal procurement regulations, that are coordinated with ASPR regulations of the Department of Defense.

This year they hope, for the first time, to print in looseleaf form all of these regulations, compile them together. They do not deal just with GSA procurement but procurement for the entire civil side of the Federal Government.

Mr. THOMAS. This is an educational unit? They are teaching these various agencies how to buy?

Mr. BOUTIN. They are putting some pretty firm requirements on how they do buy, including ourselves.

Mr. THOMAS. When do you expect to get them educated? You have been educating them for a long time.

Mr. BOUTIN. Sometime the economy—I hope it never does—when it stands still, then we will be able to——

Mr. THOMAS. What part of personnel is engaged in the day-to-day consultation with the various agencies of the Government that you serve? I am talking about the supply system, stockpile items they buy, how to buy off the schedule, and everything else? How many people do you have to get into your section?

Mr. GASQUE. In my own operation of procurement policy, I have a total of 16 people; 9 professionals. These 9 people, including myself, are in day-to-day contact with all of the agencies with respect to the development and maintenance of Governmentwide Federal procurement regulations.

Mr. THOMAS. When are you going to get the agencies educated?

Mr. BOUTIN. We have 45 people anticipated in 1964 working in supply coordination, which is the field you are talking about.

Mr. THOMAS. All you can do is to hold their hands? You cannot make them do anything?

Mr. BOUTIN. We are gaining on it.

Mr. THOMAS. You do not attempt to——

Mr. BEAN. We do attempt to and we have gotten some very excellent results. These are the people who are working with the Department of Defense on the new items we are getting from them.

Mr. BOUTIN. In procurement policy we have 16 and that is why I said it is a divisible operation, different functions

Mr. BEAN. This number of people remain pretty much static in this.

ADMINISTRATIVE OPERATIONS—FSS

Mr. EVINS. For "Administrative operations" you go from $8,832,000 to $10,589,000. Why is this necessary? Why is it required? How do you justify this $2 million increase?

Mr. BOUTIN. Mr. Turpin said he has a good story on that, Mr. Chairman.

Mr. EVINS. He wants $2.5 million more.

Mr. THOMAS. This is his biggest activity, in all fairness to the gentleman.

Mr. TURPIN. This is the biggest activity we have in the AO area.

Mr. THOMAS. Mr. Evins is about to let you off the hook. You better leave him alone.

Mr. TURPIN. It would be better if I could take care of it at the end and then we will take care of the total picture.

Mr. EVINS. I am not as tough as the chairman but I do want to know why you need 740 more people in this Federal Supply Service.

Mr. TURPIN. Those are the additional employees for all operations in FSS required to handle the increased volume of business projected in supply.

Mr. EVINS. Could you not get by with around 500 employees?

Mr. TURPIN. No, sir. As a matter of fact, even with what is projected, we anticipate reducing our unit costs for the business handled in 1964.

Mr. EVINS. Mr. Turpin, you also reduced the unit costs but you do not reduce personnel.

Mr. TURPIN. Well, it is difficult to reduce personnel when the volume of business you are handling increases.

Mr. EVINS. Could I bargain with you for 600?

GAO REPORT ON ADP EQUIPMENT

Mr. THOMAS. What about the ADP equipment you bought? Did you get it too hot and burn it up?

Mr. TURPIN. No, sir. Are you talking about the two GAO reports?

Mr. THOMAS. I am talking about the one you are thinking about.

Mr. TURPIN. Well, the one we had here in region 3, which I think is the one you are referring to, did give us a problem.

Mr. THOMAS. How much did that problem cost us?

Mr. TURPIN. In the GAO report, they indicated the cost to the Government as $650,000. I do think it is a little unfair, though, to say that it cost the Government $650,000 without the Government getting something for it, because part of that $650,000——

Mr. THOMAS. What did it cost us, $500,000?

Mr. TURPIN. Well, I was going to say that the $650,000 included site preparation for the machine that we did have in there, that did not work, but we are also using that same site for the equipment that is there now.

Mr. THOMAS. What did the machine cost? You are the next biggest bookkeeper to Social Security in the country, are you not?

Mr. TURPIN. We have a tremendous lot of accounts to keep. Of course, a lot of the volume we have——

Mr. THOMAS. How much money did you lose on that machine and why? What was the trouble? What went wrong?

Did the contractor perform or did the machine perform?

Mr. BOUTIN. We tried to make the machine do things it could not do and we could not make it do, and that is about the size of it, Mr. Chairman.

Mr. THOMAS. We just bought the wrong machine, but how come?

Mr. BOUTIN. We did not buy it. We rented it.

Mr. TURPIN. It was on a rental, sir.

Mr. EVINS. It would not do the work and you sent it back?

Mr. TURPIN. Yes, sir; the figure that was referred to in the GAO report was $650,000. In arriving at that figure, there was——

Mr. THOMAS. Who was the contractor?

Mr. TURPIN. It was an RCA machine.

Mr. THOMAS. Are they not substantial people? Do you have a lawsuit if it does not perform?

Mr. TURPIN. Actually, the rent that was paid out was pretty——

Mr. EVINS. More than the value of the machine?

Mr. TURPIN. No, sir; a relatively small amount, but in the cost that was identified as $650,000 was $139,000 for the preparation of the site and that we are still using. Also, in computing that estimate of cost to the Government was the time of the people that were in training and working on this system from 1957 to 1961, which was $496,000. That was the big chunk of it. It is true that the precise system they were working on during that period, and which we had planned to put on this particular machine did not pan out, but the know-how that was developed and many of the concepts that were developed on that machine are incorporated in the system we have going today which is a very good one.

Mr. THOMAS. Who is your contractor today?

Mr. TURPIN. The equipment we have is IBM; 1401 machines.

Mr. BOUTIN. Nine 1401's and one 1410.

Mr. THOMAS. You have no recourse against the first contractor?

Mr. TURPIN. No, sir. The contract with RCA was just for the rental of their equipment plus support service they provide along with it.

Mr. THOMAS. There is no cause of action?

Mr. TURPIN. No, sir.

Mr. BOUTIN. I do not think we can point the finger here at RCA or the 501. I think we have to share the blame. We had a concept that did not work out.

Operating Expenses, Federal Supply Service

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	15,559	19,490	24,844
	Positions other than permanent	412	286	346
	Other personnel compensation	840	739	816
	Total personnel compensation	16,811	20,514	26,006
12	Personnel benefits	1,209	1,490	1,887
21	Travel and transportation of persons	356	524	683
	Payment to interagency motor pools	129	148	178
22	Transportation of things	902	356	421
23	Rent, communications, and utilities	2,596	2,746	3,110
24	Printing and reproduction	1,284	1,383	1,736
25	Other services	2,510	3,309	4,188
	Payment to administrative operations fund	6,848	8,632	10,589
	Services of other agencies	767	1,036	1,356
26	Supplies and materials	458	524	679
31	Equipment	257	142	167
	Total obligations	34,127	40,805	51,000

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	2,845	3,311	4,145
Full-time equivalent of other positions	73	52	63
Average number of all employees	2,599	3,109	3,881
Number of employees at end of year	2,884	3,280	4,109
Average GS grade	7.4	7.4	7.4
Average GS salary	$6,523	$6,939	$6,961
Average salary of ungraded positions	$5,274	$5,294	$5,315

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Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Supply operations:			
(a) Supply distribution	14,527	17,208	22,343
(b) Buying operations	6,560	7,539	9,247
Total, supply operations	21,087	24,747	31,590
2. Standards and quality control:			
(a) Supply standards	1,734	2,518	2,711
(b) Quality control	2,556	3,394	4,169
Total, standards and quality control	4,290	5,912	6,880
3. Procurement policy and supply coordination:			
(a) Procurement policy	161	196	235
(b) Supply coordination	483	537	590
Total, procurement policy and supply coordination	644	733	825
4. Service direction	763	847	985
5. Administrative operations	6,848	8,632	10,589
Total program costs, funded [1]	33,631	40,871	50,869
Change in selected resources [2]	495	−66	131
Total obligations	34,127	40,805	51,000
Financing:			
Comparative transfers from other accounts (−)	−30,089		
Unobligated balance lapsing	64		
New obligational authority	4,101	40,805	51,000
New obligational authority:			
Appropriation	8,428	40,500	51,000
Transferred (5 U.S.C. 630d) to (−)—			
"Operating expenses, Utilization and Disposal Service"	−3,958	−370	
"Salaries and expenses, Office of Administrator"	−85		
"Operating expenses, Transportation and Communications Service"	−284	−320	
Appropriation (adjusted)	4,101	39,810	51,000
Proposed supplemental due to pay increases		995	

[1] Includes capital outlay as follows: 1962, $188,000 1963, $120,000; 1964, $140,000. Excludes adjustments of prior year costs of $43,000.

[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders. 1961, $597,000 (1962 adjustments, −$150,000); 1962, $942,000; 1963, $876,000; 1964, $1,007,000.

Mr. THOMAS. Mr. Evins, let us go into "Operating expenses, Federal Supply Service."

PAY ACT INCREASES

Mr. EVINS. I notice your Pay Raise Act figure is how much to Federal Supply Service? Last year it was $995,000 and in the 1963 Appropriation Act it was $40.5 million. You now have an item here of $995,000 for the supplemental due to that pay increase?

Mr. BOUTIN. In the 1964 budget the addition for the pay increase is $2,225,000.

Mr. EVINS. Here is an analysis by activity and a very good table at the bottom of page 116.

Mr. Reporter, put that page in the record.

(The page referred to follows:)

OPERATING EXPENSES, FSS

Summary reconciliation of 1964 estimate to comparable amounts for 1963

1963 appropriation in annual act	$40,500,000
Transfer to "Operating expenses, UDS"	−370,000
Transfer to "Operating expenses, TCS"	−320,000
Proposed supplemental due to pay increases	995,000
Proposed supplemental to provide for stores stock sales increase from $272.5 million to $278 million at sales price	1,100,000
Comparative total for 1963	41,905,000
Increases in 1964:	
Increase in stores stock sales from $278 million to $364 million at sales price and total purchasing volume increase from $1,325.6 million to $1,480 million	6,796,000
Accelerated program for promulgation of new standards and specifications and amendments thereto	148,500
Increased participation in the item identification program, catalog maintenance, and item simplification	163,500
Increased liaison with civil and military agencies to assure uniform purchasing and contracting policies and procedures, print first revised volume of Federal Procurement Regulations, and extended supply coordination activities	92,000
Other increases, primarily postage fees	138,000
Administrative operations	1,757,000
Total	9,095,000
1964 estimate	51,000,000

Analysis by activities

Activities	1963 adjusted	Increases	1964 estimate
1. Supply operations	$25,544,300	$6,222,700	$31,767,000
(a) Supply distribution	17,751,000	4,735,000	22,486,000
Depot operations	12,664,000	3,938,000	16,602,000
Space and related costs	5,087,000	797,000	5,884,000
(b) Buying operations	7,793,300	1,487,700	9,281,000
2. Standards and quality control	5,945,700	885,300	6,831,000
(a) Supply standards	2,339,000	312,000	2,651,000
(b) Quality control	3,606,700	573,300	4,180,000
3. Procurement policy and supply coordination	735,000	92,000	827,000
4. Service direction	848,000	138,000	986,000
5. Administrative operations	8,832,000	1,757,000	10,589,000
Total	41,905,000	9,095,000	51,000,000

INCREASES IN 1964

Mr. EVINS. I note that "Supply distribution" goes up from $17.7 million to $22.5 million and "Depot operations" increase from $12.6 million to $16.6 million. There is a $4 million jump in your "Depot operations."

Then in your "Buying operations," that goes from $7.8 million to $9.3 million, an increase of $1,487,700. In every item there is a substantial increase.

The next item is "Standards and quality control" and that goes from $5.9 million to $6.8 million, an increase of $885,000.

Under "Quality control" that goes from $3.6 million to $4.2 million, an increase of $573,300; "Procurement policy and supply coordination," $735,000 to $827,000, an increase of $92,000; "Service direction" is up from $848,000 to $986,000, an increase of $138,000.

Here, again, we have "Administrative operations" at $8.8 million, which go up to $10.6 million, an increase of $1,757,000.

COST ELEMENTS OF THE SUPPLY OPERATION

Mr. THOMAS. Mr. Evins, may I make an observation here?

The thing that interests me about the "Administrative expense" item, or impresses me, is that it brings out the difference between your business and the retail business.

Your big expense here is not in the operation of the stores. We consider that you are a retail outlet, so to speak. However, let us look at your space and related costs, your standards and quality control, and your buying.

Your "Procurement and supply coordination" is three-quarters of a million dollars and omitting these two administrative items which are about $11 million, your big cost is in procurement, buying, and standards? It is just the opposite of the retail store?

Mr. BEAN. That is right because, after all, we buy over a billion dollars worth of goods, and do not run it all through the store, because it is cheaper to ship most of it direct. We ship directly to the customers and that is how we get our total costs down to this $3.50 per $100.

Mr. OSTERTAG. You mean you ship directly from the source of procurement?

Mr. BEAN. From the source; yes, sir.

Mr. THOMAS. Your stock operators really earn money because they ship and package a world of merchandise?

Mr. BEAN. They sure do.

STORES EMPLOYMENT

Mr. THOMAS. Where are the green sheets on those people in the warehouses? You do not set that out in the justifications.

You do that in one or two of your upper bracket people but you do not do it on stores.

Mr. BEAN. "Depot operations," page 124.

Mr. THOMAS. Do you set them out here?

Mr. TURPIN. That is on page 124.

Mr. THOMAS. What are the classifications of each one of your top people in your stores?

Mr. BEAN. Grade 14.

Mr. THOMAS. What are the rest of them? Your employment in those big warehouses is surprisingly conservative, taking into consideration the amount of detail work. What are the rest of them

in an average warehouse? Your big one in Chicago has how many people?

Mr. McGee. We asked for 172.

Mr. Thomas. You have one grade 14?

Mr. McGee. We have one grade 14; one grade 13; one grade 12; two grade 11's.

Mr. Boutin. In Chicago?

Mr. McGee. That is for Chicago.

Mr. Boutin. Most of them are wage board employees, Mr. Chairman, in the depots themselves.

Mr. McGee. In Chicago we will have approximately 110 wage board employees.

Mr. Thomas. Go ahead.

Mr. Bean. Every one of the wage board employees and every one of the people in buying are subject to performance standards. If they cannot perform up to standard, action is taken to retrain, reassign, or release them.

Mr. Evins. You say that except for customers orders placed directly with suppliers under the supply schedule, most of the purchase of commodities are financed initially from the general supply fund, subject to reimbursement by ordering agencies. Wherever economical and feasible, costs of commodities furnished directly from suppliers are paid directly from funds of the requisitioning agency without involving the general supply fund.

APPROPRIATIONS, 1963 AND 1964

I think we ought to go into this paragraph a little carefully. [Reading:]

In addition to the adjusted appropriation of $39,810,000 for 1963, supplemental appropriations are being proposed for later transmittal to provide (1) $995,000 for Pay Act increases, and (2) $1,100,000 due to the increased volume of stores stock sales which is currently being realized above that which can be handled by the initial appropriation. The estimate of $51 million for 1964 proposes an increase of $9,095,000 over the comparable financing of $41,905,000 for 1963. The increase includes $6,796,000 to handle an additional $86 million in stores stock sales and $154.4 million in purchases; $312,000 to provide the minimum number of specifications standards and item identifications to support the increased supply activity; $1,757,000 to provide normal administrative operations supply of the expanded supply program; and $230,000 for other activities.

Mr. Bean, this no longer is small business. This has gotten to be in the big business category?

Mr. Bean. That is correct.

PAY ACT INCREASES AND ABSORPTION

Mr. Ostertag. Recognizing that this is limited to the area of Federal Supply Service, I note that in the statement just read by Mr. Evins, the supplemental calls for $995,000 for the Pay Act increase. How much has been absorbed? What was the total effect of the increase in your area? Can you tell us that?

Mr. Bean. I think Mr. Turpin probably has that exactly.

Mr. Turpin. Sir, the increase in 1963 was $1,024,000 of which $29,000 was absorbed and there is $995,000 included in the supplemental.

The figure in the 1964 estimate represents the results of the Pay Act increase and is $2,225,000.

Mr. EVINS. How much have you absorbed? I think he is asking beyond that.

Mr. OSTERTAG. Have you absorbed any?

Mr. TURPIN. Only to the extent we have reduced the unit of cost for handling the business in 1964. Applying the pay act increase to the employees projected in 1964, the cost would be $2,225,000.

Mr. OSTERTAG. $2,225,000 would be the effect of the pay increase on your total personnel?

Mr. TURPIN. Yes, sir.

Mr. OSTERTAG. Including the additional personnel program?

Mr. TURPIN. Yes, sir; that is correct.

Mr. OSTERTAG. But you made only a slight absorption of the pay increase in fiscal 1963 if you are going to require $995,000 of slightly over a million-dollar cost?

Mr. TURPIN. That is correct.

The reason for that is that the volume of business we are having cannot be handled and that is why we are having to come in with a supplemental for 1963 for an amount even over and above the cost of the pay act increase.

Mr. BEAN. In 1964, in the "Depot operations," our costs per hundred dollars is not going to go up at all, even though increased pay amounts to 8 cents per $100. We are absorbing all of that next year.

SALES VOLUME AND OPERATING COSTS

Mr. EVINS. Mr. Bean, there are two ways to make money: One is to increase your sales volume and the second is to cut down your expenses.

Mr. BEAN. That is correct.

Mr. EVINS. I believe you are increasing your sales but I do not believe you are reducing your expenses.

Mr. BEAN. Yes; we are.

Mr. EVINS. I have not been too much impressed with that.

Mr. OSTERTAG. How does it work out proportionately? How much have your sales increased and what percentage increase is being applied as compared with your percentage increase in costs?

Mr. BEAN. Let us look at it this way: Here is 1959 and our cost per unit for depot operations was $4.97. This includes packing, shipping, picking the business, and everything else. It was $4.60 in 1960.

In 1964 we are going to drop that to $4.56. We are going down.

Mr. OSTERTAG. Comparatively?

Mr. BEAN. Yes, sir.

Mr. EVINS. Because you have a few more items on your listing, that is your basis of comparison?

Mr. BEAN. Certainly, but after all your expenses have to come in comparison with your volume of business and expenses are lowering as the volume of business goes up. We are creating more efficiency.

Mr. EVINS. Your costs are going up?

Mr. BEAN. Dollars go up but the percentage in the amount of tonnage——

Mr. EVINS. You augment the supply fund every year?

Mr. BEAN. The amount of tonnage that goes out every year is greater. The actual cost of doing the job is less than it was per unit.

Mr. EVINS. You make it look good with a sharp pencil but realistically it does not square.

Mr. OSTERTAG. As a general observation, I would say that you are bound to have increased costs and increased personnel as your area of service and responsibility grow and expand. There is no question about that.

While you are not responsible for all of the other agencies of Government, I can say to you that from the standpoint of their budgets and increases in personnel, the absorption of this service by GSA is not in any degree reducing their budgets and their personnel. Perhaps that is an expression of opinion rather than an observation.

Mr. BOUTIN. It would have to be on an area-by-area basis. You would have to look at the procurement supply people in a given area that we are servicing to look for those reductions.

Either now or when we come back next year with our 1965 budget, we will be able to demonstrate some substantial improvements in taking over some of these missions, lock, stock, and barrel; personnel, inventory, and mission.

This is as far as supply and procurement is concerned.

We will have something we can really put our teeth into.

Mr. OSTERTAG. You understand my point?

Mr. BOUTIN. Yes.

Mr. BEAN. We are comparing prices between our organization and others and the only way you can get that down to zero with the other organizations is for us to take it over, lock, stock, and barrel, and then I think we can measure it.

Mr. EVINS. Are there any further questions?

If not, we will turn to "Supply operations appropriations."

SUPPLY OPERATIONS

Mr. Reporter, place in the record pages 118 through 123.

(The pages follow:)

1. Supply operations

	Amount	Average employment		
		Department	Field	Total
1963	$25,544,300	410.5	2,022.9	2,433.4
Change	+6,222,700	+55.0	+603.7	+658.7
1964	31,767,000	465.5	2,626.6	3,092.1

HIGHLIGHT

"(*a*) *Supply distribution*

"Stocks of common-use commodities are received, warehoused, and issued at cost to Federal agencies through a nationwide system of supply depots. Stores stock sales reflect a continuous increase as follows:

[In millions of dollars]

	1959	1960	1961	1962	1963	1964
Gross sales	151.3	160.5	190.5	238.8	278.0	364.0
Excluding transportation costs to the ultimate point of deliveries	145.5	154.3	183.2	229.6	267.3	350.0

"Included in this activity are space and related costs as follows: 1962, $3.6 million; 1963, $5.1 million; and 1964, $5.9 million.

"(*b*) *Buying operations*

"Commodities are procured to maintain inventories at stores depots to insure availability in advance of sales orders and for direct delivery to agencies. Term contracts for common-use commodities and services are established for large aggregate volume requirements against which agencies place individual orders at uniform price advantages. Total procurement in 1964 is estimated at $1,480 million, compared to $1,325.6 million in 1963 and actual purchases of $1,187.9 million in 1962." (From the budget for 1964. Amounts struck through have been changed to reflect the revised estimate for 1963.)

Summary of performance cost

	1962	1963	1964
Supply operations	$21,233,799	$25,544,300	$31,767,000
(*a*) Supply distribution	14,631,916	17,751,000	22,486,000
(1) Depot operations	11,069,452	12,664,000	16,602,000
(2) Space and related costs	3,563,464	5,087,000	5,884,000
(*b*) Buying operations	6,601,883	7,793,300	9,281,000
(1) Stores items buying	3,719,947	4,437,300	5,710,000
(2) Nonstores items buying	1,978,746	2,272,000	2,416,000
(3) Federal supply schedule purchases	903,190	1,084,000	1,155,000

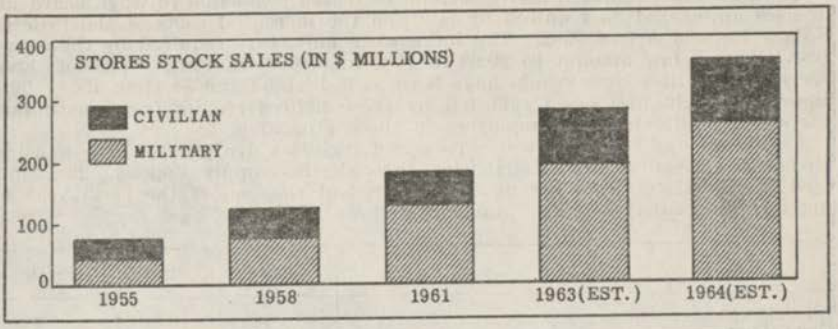
JUSTIFICATION

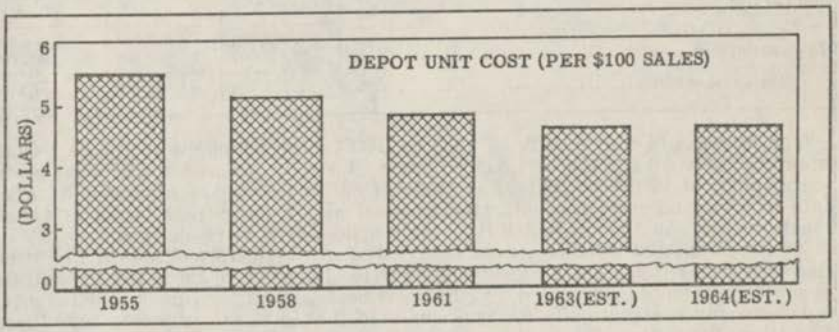
(*a*) *Supply distribution*

(1) *Depot operations.*—The unit cost is related to sales from stores stock, including warehouses, fuel yard, buildings materials yard, and retail stores as follows. Space and related costs are included under (2).

	1962	1963	1964
Sales from stores stock (millions)	$238.8	$278.0	$364.0
Cost per $100	4.64	4.56	4.56
Performance cost	11,069,452	12,664,000	16,602,000

STORES STOCK SALES AND UNIT COST





SALES IN $ MILLIONS

FISCAL YEAR	TOTAL SALES	CIVILIAN	MILITARY		DEPOT UNIT COST
			AMOUNT	PERCENT	
1953	54.7	31.6	23.1	42.2	9.65
1954	52.8	26.5	26.3	49.8	9.55
1955	75.9	31.9	44.0	58.0	5.50
1956	96.4	35.4	61.0	63.3	5.10
1957	116.4	44.1	72.3	62.1	4.82
1958	120.7	45.1	75.6	62.6	5.09
1959	145.5	48.2	97.3	66.9	4.97
1960	154.3	51.6	102.7	66.6	4.60
1961	183.2	60.0	123.2	67.2	4.80
*1962	238.8	76.1	162.7	68.1	4.64
*1963 (EST.)	278.0	82.7	195.3	70.3	4.56
*1964 (EST.)	364.0	100.1	263.9	72.5	4.56

*ADJUSTED TO REFLECT DELIVERED PRICES.

The volume of stores sales ($364 million) at delivered prices, to be shipped from stock in 1964 represents a 31-percent increase above the revised volume for 1963 ($278 million). The increased volume in 1964 of $86 million will result from $68.6 million of increased sales to military activities both in the continental United States and overseas, and $17.4 million of increased sales to civilian agencies. These sales estimates do not include any projection of increased sales to installations of the Department of the Army overseas as a result of a recent directive requiring more extensive use of GSA supply facilities. In view of this the 1964 sales estimate must be considered conservative. The chart

on opposite page shows the trend in sales to military and civilian agencies for a period of years.

The unit costs reflected above include increased costs due to wage board increases authorized as required by law and the increased costs of the Federal Salary Reform Act of 1962. The increase in unit costs required by these two provisions of law amount to $0.08 in 1963 and $0.15 in 1964. Without these increases the unit costs would have been $4.48 in 1963 and $4.41 in 1964. The improvement in unit costs reflected by these figures results from continuing increased productivity of employees in these programs.

(2) *Space and related costs.*—Space and facilities are provided for housing inventories required for distribution through the supply depots. The unit cost is related to stores inventories required at the end of the fiscal year to support the projected sales volume as follows:

	1962	1963	1964
Inventories for sale (millions)	$88.9	$114.7	$137.0
Cost per $100	3.86	4.22	4.15
Recurring cost	3,433,464	4,837,000	5,684,000
Nonrecurring cost	129,000	250,000	200,000
Performance cost	3,562,464	5,087,000	5,884,0000

The increase in unit cost from 1962 to 1963 is due primarily to the fact that approximately $6 million of inventory was stored in space for which no costs were incurred in 1962. This was Government-owned space allocated to FSS late in 1962 and used for bulk storage until active operations began at those locations early in 1963 at which time appropriate costs were charged.

To the maximum possible extent GSA will continue to rely on use of facilities declared excess by other Government agencies in order to meet the expanding space requirements generated by the increased sales program outlined above. Nonrecurring costs provide for contemplated moves of some depots into these facilities, incidental depot space alterations not otherwise provided for, and installation costs of selected items of operating equipment acquired through the "General supply fund."

Inventories proposed for the end of 1964 will provide for operations at a stock turn of approximately 3, the optimum ratio required in order to be completely responsive to the military priority system and other customer agency requirements, without generating excessive back orders.

(*b*) *Buying operations*

Performance costs for each mode of buying include, as applicable, review of specifications, prices and sources; evaluation of items offered by suppliers which differ from specifications; development and issuance of invitations for bids; awarding and administering contracts; determinations of whether merchandise should be supplied from stock or by direct delivery; all phases of inventory management, including determination of stock levels, optimum inventory-sales ratios, economic order quantity tables, etc.; determination of new items that should be contracted for and items which should be discontinued; and the printing and Government-wide distribution of GSA stores stock catalogs and Federal supply schedules. The unit of measure for each subactivity is the value of purchases made through the respective mode.

Increases programed for each mode are primarily related to the progressively expanding use of GSA facilities by DOD for supply support of common-use items.

(1) *Stores items buying.*—Provides contracting for (1) replenishment of depot stocks equivalent to sales discussed in subactivity 1a; Depot Operations and inventory buildup; (2) Space and related costs; and (3) large volume orders shipped direct from supplier to ordering agencies, thus obviating handling costs.

	1962	1963	1964
Stores items buying (millions)	$297.7	$351.6	$440.0
Unit cost (per $100)	1.25	1.26	1.30
Performance cost	3,719,947	4,437,300	5,710,000

The increase in unit cost is fully attributed to the Federal Salary Reform Act of 1962. On a comparable basis with 1962 the unit cost would have been $1.22 in 1963 and $1.22 in 1964, the effect of pay increases being $0.04 in 1963 and $0.08 in 1964.

(2) *Nonstores items buying.*—Provides contracting for items of supply which are not economical to store and issue from supply deposits because of bulk or other characteristics. Orders, reflecting consolidation of agencies' requirements wherever possible to attain maximum price advantages, are placed for direct delivery from supplier to ordering activity.

	1962	1963	1964
Nonstores items buying (millions)	$193.1	$194.0	$200.0
Unit cost (per $100)	1.02	1.17	1.21
Performance cost	1,978,746	2,272,000	2,416,000

The unit cost for this subactivity increases in 1963 and 1964 because of additional purchasing which will be performed for the oversea activities of the military services, as a result of the policy to improve the gold flow situation. This type of purchasing incurs higher communications costs and other additional costs because of (1) difficulties in providing proper purchase descriptions for items being bought and (2) additional expediting costs due to necessity to meet delivery dates conforming to air or water shipping schedules. The low-unit cost in 1962 resulted chiefly from a large consolidated purchase of radiological instruments for the Office of Civil Defense totaling $24 million. Single purchases of this magnitude are not expected to be repeated in 1963 or 1964.

The increase in unit cost attributable to the Federal Salary Reform Act of 1962, is $0.04 in 1963 and $0.08 in 1964. On a comparable basis with 1962, the unit cost for 1963 and 1964 would have been $1.13 and $1.13.

(3) *Federal supply schedule purchases.*—Term contracts for common-use commodities and services are established for large aggregate volume requirements against which agencies place individual orders at uniform price advantages. This method of contracting is used when: (1) Industrial distribution facilities are adequate to properly serve numerous use points, (2) items are noncompetitive, (3) installation or supervision of installation by supplier is essential to proper use of equipment, (4) concentration of agency installations in a given area require common services, or (5) price or other advantages accrue to the Government.

	1962	1963	1964
Value of orders placed against Federal supply schedules (millions)	$697.1	$780.0	$840.0
Unit cost (per $100)	0.13	0.14	0.14
Performance cost	903,190	1,084,000	1,155,000

The increase in unit cost in 1963 and 1964 is due to the Federal Salary Reform Act of 1962.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $19,387,300 provides for 3,304 positions, an increase of 642 positions (658.7 average employment) over 1963 distributed as follows:

	1962			1963			1964		
	De-partment	Field	Total	De-partment	Field	Total	De-partment	Field	Total
(a) Depot operations	56.0	1,311.0	1,367.0	70.0	1,590.0	1,660.0	81.0	2,031.0	2,112.0
(b) Buying operations	329.0	510.0	839.0	375.0	627.0	1,002.0	427.0	765.0	1,192.0
Total positions	385.0	1,821.0	2,206.0	445.0	2,217.0	2,662.0	508.0	2,796.0	3,304.0
Average employment	359.2	1,673.2	2,032.4	410.5	2,022.9	2,433.4	465.5	2,626.6	3,092.1

Other objects: $12,379,700 provides:

(1) $1,390,500 for personnel benefits, including $1,189,000 retirement contributions, $120,500 health benefits, $60,000 group insurance, $10,300 FICA, and $10,700 accident claims.

(2) $324,500 for 12,019 days' travel at $27 per day, and $40,500 for motor-pool service.

(3) $420,000 for transportation of things which includes motor-pool truck service, transportation costs incident to relocation of warehouses, and transshipment of stocks between warehouses.

(4) $1,899,000 space rental and utility costs, and $415,000 rental of operating equipment.

(5) $1,542,500 printing which includes $662,000 for printing ADP cards and forms, $95,500 for order processing and invoice documents, and warehouse and operation forms, $650,000 for Federal supply schedules, invitations to bid, purchase documents and related forms, and $135,000 for GSA stores stocks catalogs.

(6) $5,274,000 contractual services which includes contract labor and other commercial services, payments to buildings management fund, health room services, handling costs in military depots, and contractual services necessary for relocation of warehouses.

(7) $409,000 operating supplies, including packaging and crating materials.

The remainder of $664,700, or 2.1 percent of total estimate, provides:

(8) $327,500 communication services.

(9) $176,000 office supplies, and $161,200 equipment.

SUPPLY DISTRIBUTION

Mr. EVINS (reading):

(a) Supply distribution

Stocks of common-use commodities are received, warehoused, and issued at cost to Federal agencies through a nationwide system of supply depots. Stores stock sales reflect a continuous increase as follows:

[In millions of dollars]

	1959	1960	1961	1962	1963	1964
Gross sales	151.3	160.5	190.5	238.8	278.0	364.0
Excluding transportation costs to the ultimate point of deliveries	145.5	154.3	183.2	229.6	267.3	350.0

Included in this activity are space and related costs as follows: 1962, $3.6 million; 1963, $5.1 million; and 1964, $5.9 million.

These represent costs of sales?

Mr. BEAN. Warehouse costs.

Mr. EVINS. Your costs are going up.

Mr. SPANGLER. No, for comparative purposes we took out the transportation on the bottom line.

Mr. BOUTIN. They are the same sales as in the first line with the exception of the 4-percent transportation charge which has been removed.

Mr. EVINS. Here is a summary of performance costs.

TRANSPORTATION COST TO POINT OF DELIVERY

Mr. THOMAS. Mr. Evins, that transportation cost item is increasing, too.

Are you putting the 4 percent on the customer?

Mr. BOUTIN. Four percent on the customer added to the price of the merchandise.

Mr. THOMAS. It is all by truck or by rail? What is the majority of it?

Mr. BOUTIN. Just about every combination you can think of. I say the majority right now is by truck on outgoing.

TRANSPORTATION CONTRACTS

Mr. THOMAS. How are the contracts let?

Mr. BOUTIN. Mr. Conrad, you handle a lot of that. Would you speak to it?

Mr. CONRAD. These are outbound shipments from the depots which are made on section 22's, which we negotiated with the carriers.

Mr. THOMAS. Who does the negotiating?

Mr. CONRAD. The regional representatives of the Transportation Service.

Mr. THOMAS. Domiciled in regional offices?

Mr. CONRAD. Yes, sir.

Mr. THOMAS. What supervision do they have over those contracts?

Mr. CONRAD. Supervision is exercised by the regional representatives of the Transportation and Communications Service.

Mr. THOMAS. Tell us in some detail. Is there any limitation on what the transportation officer can award in the way of a contract without coming to the Washington office or any other authority?

Mr. CONRAD. Our transportation contracts in the regions have a limitation of $50,000. Transportation contracts in excess of that amount are referred to the central office for approval.

FIELD SUPERVISION OF TRANSPORTATION CONTRACTS

Mr. THOMAS. How much supervision is given to those contracts under $50,000?

Mr. CONRAD. The people in the regional offices, Mr. Chairman, the regional chief of the Transportation Branch and the people in the Office of Transportation in the regions all play a part in supervising these contracts.

Mr. THOMAS. This is all? When all is said and done, the Transportation Section does not have too much to do with it? They do not have the final say on what is going to be let in the way of contracts, do they?

Mr. CONRAD. Yes, sir, and they are the ones who negotiate the rates in the outbound movements from the depot.

Mr. THOMAS. Does every contract have a rate item for negotiation or does the contracting officer say, "I think this is a fair price and I will just give it to X. It will be X, Y, and Z, and A, B, and C bid."

Will he say, "I think this is the proper party to get this contract"?

Mr. BOUTIN. First of all, they must have the ICC rights to the area they are going to serve, whoever has the——

Mr. THOMAS. He has to be a common carrier?

Mr. BOUTIN. Correct.

Mr. THOMAS. We assume that.

Mr. BOUTIN. That limits the bidding right away.

Mr. THOMAS. How?

Mr. BOUTIN. Because unless they have the rights, they cannot come in and bid against somebody who does have the rights; correct?

Mr. CONRAD. That is correct. Close attention is paid, also, Mr. Chairman, to see that the tonnage is distributed among the carriers.

Mr. THOMAS. You mean to say that in the area there is only one certificated carrier and therefore you are bound by law to do business with him?

Mr. BOUTIN. There may be several certificated carriers in the same area.

Mr. THOMAS. That is what I am talking about then.

You gave the impression there would be only one.

Mr. BOUTIN. I did not mean that.

Mr. CONRAD. All who have authority and who have filed competitive rates with us participate in the tonnage in the outbound movements from the depots and a very strict record is kept of all of this. It is equally distributed to the greatest extent possible.

DECISION ON AWARD OF TRANSPORTATION CONTRACTS

Mr. THOMAS. Who makes the ultimate decision on who is going to get this contract? This is a highly competitive field and I am not telling you something you do not know. Everybody wants this business.

How do you award it? What supervision do you keep over the awarding officer?

If you do not know what happened in Fort Worth over a little contract down there on the purchase of $100,000 worth of furniture, I will tell you. That is what I have in the back of my mind, and if I have to, I will spell it out for you.

Mr. CONRAD. The regional chief of the Transportation office has on-the-spot responsibility. He is subject to the jurisdiction and supervision of the Transportation and Communications Service representatives here in Washington, D.C.

Mr. THOMAS. The Supply Service does not make the contract? This is the transportation people who make it?

Mr. CONRAD. Yes, sir; the transportation people negotiate rates and——

Mr. THOMAS. Negotiating the rates and making the contract are two different things. That is just one part of it.

Mr. BOUTIN. Your people have full jurisdiction and responsibility?

Mr. CONRAD. Yes, sir. We handle all of this.

Mr. THOMAS. It is all your responsibility and the Supply Service does not have anything to say about it?

Mr. CONRAD. We do the selection of the carrier; yes, sir.

Mr. THOMAS. And negotiate the rates?

Mr. CONRAD. Yes, sir.

Mr. THOMAS. Do you consult the supply people about that in any way? Do you say, "Here is a contractor we have just negotiated a contract with and he is going to deliver your merchandise?"

Mr. BOUTIN. They set forth the requirements first, Mr. Chairman, and Mr. Bean's people say, "We need a contract between Boston and Albany" as an example.

Here is the type of tonnage, the type of commodities so we can get class rates as well as distance rates and then it goes over to Mr. Conrad's people. If it is under $25,000 total, it is handled in the field subject only to audit by his people and by the auditors in Mr. Turpin's shop; if it is over $25,000, it comes to the central office for approval: Is that correct?

Mr. CONRAD. Correct.

Mr. BEAN. We have many problems and things we need to resolve and we work very closely with them so they can take care of them.

SALES TO THE MILITARY

Mr. EVINS. The volume of stores sales of $364 million is estimated in Mr. Bean's shop next year. This represents a 31 percent increase over last year. The increased volume in 1964 will result in $68 million for the military and $17 million for civilian agencies. This chart reflects that the military is the largest buyer. I had the impression that you were supplying the military, but principally you were supplying civilian agencies of Government.

Mr. BEAN. That is correct. And these figures do not include the Army which is not coming in with us until March.

Mr. OSTERTAG. In that connection, Mr. Bean, we were discussing a moment ago about the oversea supply agreement which you have entered into with the Air Force and now you plan to expand it, but is it not correct to say that a great deal of the supplies you procure for the military will find their way overseas?

Mr. BEAN. Well, yes. I think more goes overseas than is consumed here in the United States—the boys tell me that is not true, that there is more consumed in the United States than overseas.

Mr. OSTERTAG. But some of the supplies procured here that are not shipped overseas by you find their way overseas? In other words, it is not entirely consumed in the United States?

Mr. BEAN. On the new basis with both the Air Force and the Army we will ship their requirements to them directly. It will not come from one of our warehouses.

Mr. OSTERTAG. What is the total of the supplies you have procured, let us say, in 1962 for the military? What is the total figure, roughly?

Mr. EVINS. It is estimated to be about $276 million.

Mr. BEAN. On stores sales in 1963 it is almost $200 million and we expect it to get to $264 million next year.

Mr. OSTERTAG. My point is that in the area of supply for the military, is it not quite probable that a certain part of that is used overseas?

Mr. BEAN. Oh, yes, but not as much as half, they tell me.

Mr. OSTERTAG. My only point is that this $100 million figure you gave us awhile ago which has a relationship to the balance of payments.

Mr. BEAN. That is the part that goes overseas.

Mr. OSTERTAG. That goes directly overseas as a part of a decrease in the sales overseas?

Mr. BEAN. In the gold flow; yes.

Mr. OSTERTAG. Yet at the same time the supply to the military for oversea use is not limited to that figure?

Mr. BEAN. That is correct. We have $300 million of military sales, as that chart shows. It is about $264 million, I guess. So that we are only going to send a portion of that overseas and the other portion will be consumed in the United States.

Mr. SPANGLER. The majority of our shipments to the military stateside go to posts, camps, and stations; places like Fort Meade and Belvoir. Some shipments we do make to depots like Schenectady General Depot or Columbus. These shipments may or may not eventually find their way overseas. Things we ship to the Navy, for example, in Norfolk, go in their system there. Some may go out on ships and go to England, for example.

Mr. OSTERTAG. That is my point.

Mr. SPANGLER. But normally a very small percentage would find its way overseas.

FEDERAL SUPPLY SCHEDULE PURCHASES

Mr. EVINS. "Federal supply schedule purchases." "Term contracts for common-use commodities and services are established for large aggregate volume requirements against which agencies place individual orders at uniform price advantages."

How long are these term contracts for?

Mr. SPANGLER. They run from 3 months to a year, normally a year.

Mr. EVINS. That ought to make your workload less. You make your contract and they just pay you twice a year and the manufacturer ships directly to the user.

Mr. BEAN. This is where we really make money.

Mr. BOUTIN. We do not have a big workload any given month and nothing the next month.

Mr. EVINS. But your volume is large.

Mr. BOUTIN. Yes; and, of course, the volume is something we have no control over. This is open end.

Mr. EVINS. The large part you do not have too much work to do?

Mr. BOUTIN. Once the contract is let, after that it is simply a matter of policing it and checking the quality.

Mr. SPANGLER. And this is no small task.

OTHER OBJECTS—SUPPLY OPERATIONS

Mr. EVINS. In your "Other objects," $1,390,500 is for personnel benefits including $1,189,000 retirement contributions, $120,500 health benefits, $60,000 group insurance, $10,300 FICA, and $10,700 accident claims.

You have $324,500 for 12,019 days of travel at $27 per day, and $40,500 for motor pool service.

And you have $420,000 for transportation of things; and $1,899,000 for space rental and utility costs; and $415,000 for rental of operating equipment.

This is a thing personally I have never looked favorably upon. You buy this equipment and then you have to pay them a half million dollars a year after you buy the equipment to supervise it and keep it running.

Mr. SPANGLER. May I correct that impression, sir?

This $415,000 is payments back to our general supply fund for depreciation of equipment that has been financed through the general supply fund.

Mr. EVINS. How much do you pay the calculating machine manufacturers as an annual charge?

Mr. SPANGLER. I was referring to warehouse operating equipment.

Mr. BOUTIN. Instead of rental it should be called depreciation.

Mr. SPANGLER. It is depreciation.

Mr. EVINS. You have an item of $1,542,500 for printing which includes $662,000 for printing ADP cards and forms, $95,500 for order processing and invoice documents, and warehouse and operation forms; $650,000 for Federal supply schedules, invitations to bid, purchase documents, and related forms; and $135,000 for GSA stores stocks catalogs.

You have an item of $5,274,000 for contractual services which includes contract labor. This is a large item. What is that for?

Mr. BEAN. That is in our warehouse operation. We have to keep a certain amount of flexibility and that is why we have contract labor when we have peakloads.

Mr. BOUTIN. The total contract labor is only $875,000 of that amount, Mr. Chairman.

Mr. THOMAS. Gentlemen, let us stop. We will finish this tomorrow morning and I hope we can go into volume III tomorrow and finish Friday noon.

Thank you so very much.

THURSDAY, FEBRUARY 21, 1963.

TOTAL COST OF SUPPLY OPERATION

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

When we adjourned yesterday we were talking about "Supply operation." It was brought out most effectively yesterday that the total cost figure for "Supply operations," is $31,767,000 for 1964 as against $25,544,300 for this year.

Is that the complete overall cost?

Mr. BOUTIN. For supply operations only, Mr. Chairman, yes.

Mr. THOMAS. What other items of expense go into the total besides this? You have buying, supply schedules, depot operations, and your space and related cost. Are there any others?

Mr. TURPIN. Standards and quality control, procurement policy and supply coordination, service direction and administrative operations.

Mr. THOMAS. That last is a big item?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. As I remember, that is $10 million but that wraps it all up?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. What is the entire cost?

Mr. BOUTIN. The total is $51 million. There is $6,831,000 broken down into "Supply standards and quality control"——

Mr. THOMAS. I am including that. I thought that was a part of the $31.7 million. Apparently it is not?

Mr. BOUTIN. No, sir. The bottom of page 116 gives you that information.

Mr. THOMAS. This overall table at the bottom of page 116 is interesting. Is there any other item of expense other than that set out right here?

Mr. BOUTIN. No, sir.

Mr. THOMAS. $51 million?

Mr. BOUTIN. $51 million.

Mr. THOMAS. I believe this table is already in the record. This includes the "Administrative account" of $10.5 million and if you take a look at that table you will notice the big expense in the "Supply system" is not in the retail end of the business, as we would normally look for it, but it is in administrative operations, procurement policy, standards, quality control, buying operations, and so forth and so on.

What was your figure on "Stores," around $16 million?

Mr. BOUTIN. "Depot operations," $16,602,000.

Mr. THOMAS. That is only about one-third of the total cost as compared with a retail operation where it would be just the reverse?

Mr. TURPIN. You still have buying inspection and administrative operations applicable to stores stock, in the total figure.

Mr. THOMAS. Well, they lump it in.

Off the record.

(Discussion off the record.)

OVERHEAD COSTS

Mr. THOMAS. What is the breakdown of that? The normal markup in an average store is anywhere from 33⅓ to 50 percent over the wholesale cost; is that correct? How do they usually break down that 33⅓ or 50 percent? How do they allocate it to expense?

Mr. BEAN. It has been quite a little while since I have worked on that but actual store operations, the rent is about 10 percent and the other operating costs 10 percent.

Mr. THOMAS. Is rent that high?

Mr. BEAN. It is very high in choice locations. Then your personnel is about 10 percent in the store, and, of course, on top of that you have your buying organization and your administrative operations.

Mr. THOMAS. There is another big item, advertising?

Mr. BEAN. Advertising is about 8 to 10 percent in chainstores.

Mr. THOMAS. Are buying costs the cheapest item of expense they have?

Mr. BEAN. In the retail stores, that is not true. The buying operation is a very large operation and they have a lot more people than we do.

Mr. THOMAS. What does that usually comprise, what part of the overhead? Certainly it is not more than 2 or 3 percent, if that much, is it?

Mr. BEAN. I would guess now it must be 5 percent. We may be getting more figures in here than we have in our markup but those things have risen quite a bit.

Mr. THOMAS. The point of my raising the question is that our costs are almost the reverse of that?

Mr. BEAN. That is right.

Mr. BOUTIN. Our costs would not be much different than a mail order house like Montgomery Ward or Sears, Roebuck? Their buying and ours, percentagewise, would be pretty close?

Mr. BEAN. That would be more comparable than a retail store. We do ship a great deal more goods directly than anyone else in the country and that is what brings down our costs in distribution.

Mr. THOMAS. Your direct sales? Repeat that cost again. What was it? I believe it is in the record from yesterday but what is it in the stores?

Mr. BOUTIN. The store-stock sales are estimated for 1964, Mr. Chairman, as $364 million.

Mr. THOMAS. I am talking about the percentage. It is around 9.1 or 9.2 percent, is it not?

Mr. BEAN. Yes, for everything.

Mr. THOMAS. What are the administrative costs on direct sales?

Mr. TURPIN. The total for the nonstore items is $2.28.

Mr. THOMAS. Go ahead.

Mr. TURPIN. The costs related to orders placed against schedules comes to 23 cents.

Mr. THOMAS. That is even less. The store operation is about what, $9?

Mr. TURPIN. $9.09 projected for 1964.

Mr. THOMAS. The hog-round average figure is around what, 4.5? To me that is quite interesting.

PROCUREMENT POLICY AND SUPPLY COORDINATION

Let us take a look at "Procurement policy." Let us put pages 134 and 135 in the record.

(The pages follow:)

3. Procurement policy and supply coordination

	Amount	Average employment		
		Department	Field	Total
1963	$735,000	56.7	----------	56.7
Change	+92,000	3.3	----------	3.3
1964	827,000	60.0	----------	60.0

HIGHLIGHT

"Policies and regulations are promulgated to establish uniform and simplified procurement practices and to improve supply operations throughout the Government. The Federal procurement regulations system is administered under this program and orderly transfers of supply functions are arranged. Federal agencies are also assisted in the installation of improved supply procedures." (From the budget for 1964.)

Summary of performance cost

	1962	1963	1964
Procurement policy and supply coordination	$658,321	$735,000	$827,000
(a) Procurement policy	166,452	197,500	236,000
(b) Supply coordination	491,869	537,500	591,000

JUSTIFICATION

(a) *Procurement policy.*—Provides for planning, directing, and coordinating the development and promulgation of new and revised Federal Procurement Regulations and for developing and maintaining the GSA Procurement Regulations which implement and supplement the FPR. The increase in funds requested will provide for printing the first complete revised looseleaf edition of the FPR during 1964, and for additional costs for the 1962 Pay Act.

(b) *Supply coordination.*—The scope and depth of coverage of technical guidance and on-site assistance to Federal agencies will be increased. Continuous effort will be made to improve supply management practices at agency warehouses and at more than 1,000 agency storerooms. These improvements will be made through reductions of investment in inventory, reductions in operating costs, and the establishment of more effective and economical supply management records and reporting systems.

Since the start of 1963, surveys have been initiated in the following agencies:

Internal Revenue Service, Department of the Treasury.
U.S. Coast Guard, Department of the Treasury.
Bureau of Indian Affairs, Department of the Interior.
U.S. Coast and Geodetic Survey, Department of Commerce.
Office of Administrative Assistant Secretary, Department of Labor.

Plans for the remainder of 1963 include surveys of the supply operations of the Bureau of Reclamation and three other bureaus in the Department of the Interior; and three major payment centers of the Social Security Administration.

During 1963, over 200 individual supply activity reports submitted to GSA by all Federal executive civilian agencies will be analyzed in detail. Indicated deficiencies in agency reporting and supply management practices will be discussed with the appropriate agencies and corrective actions initiated. Data contained in these reports will also be utilized in establishing priorities for conducting comprehensive surveys of the procurement and supply operations of Federal agencies wherever our analysis indicates that maximum potential benefits and economies could accure to the Government.

During 1964 it is planned to survey the supply management practices of the following agencies:

U.S. Information Agency.
Public Health Service, Department of Health, Education, and Welfare.
Housing and Home Finance Agency.
Atomic Energy Commission.
Bureau of Engraving and Printing, Treaasury Department.
Bureau of Customs, Treasury Department.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $683,000 for 61 positions. All employment is departmental.

	1962	1963	1964
(a) Procurement policy	13.0	16.0	16.0
(b) Supply coordination	40.0	42.0	45.0
Total positions	53.0	58.0	61.0
Average employment	52.3	56.7	60.0

Other objects: $144,000, of which $51,300 is for personnel benefits, including $44,400 retirement contributions, $4,400 health benefits, and $2,500 group insurance.

The remainder of $92,700, or 11.2 percent of total estimate, provides:

(1) $27,300 for 1,011 days' travel at $27 per day; and $1,800 for motor pool services.

(2) $44,600 printing and reproduction of Government-wide Federal Procurement Regulations; and Government-wide regulations, procedures, and handbooks in various areas of supply management.

(3) $1,200 transportation of things; $8,500 communications.

(4) $4,600 contractual services; $4,700 supplies.

Mr. THOMAS. How many people do you have doing this?

I see you have 61 in the Department for 1964. These are all Departmental people; are they not?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. These are not your buyers? I still get confused in my own mind about this. Is this overlapping with your standards people?

Mr. BOUTIN. No, sir; it is not. Mr. Chairman, the procurement policy activity actually sets forth policies for the entire Government on the civil side and coordinates with the military and ASPR. There is close coordination with the standards people but there is no overlapping.

Mr. THOMAS. Do these people do any buying at all?

Mr. BOUTIN. They do no buying at all. There are 16 people Mr. Chairman, in procurement policy and 45 in supply coordination.

Mr. THOMAS. These are your people who go around to your various agencies and advise them, show them how to buy from your catalogs? Do they have anything to do with this at all?

Mr. TURPIN. That is "Supply coordination."

Mr. THOMAS. Just exactly what do these people do?

Mr. BOUTIN. In procurement policy——

Mr. THOMAS. You have used broad language here. [Reading:]

Policies and regulations are promulgated to establish uniform and simplified procurement practices and to improve supply operations throughout the Government.

They are not in the procurement business at all?

Mr. BOUTIN. Mr. Chairman, Mr. Gasque, who heads up procurement policy can give us a good explanation of that.

Mr. THOMAS. Go ahead and tell us.

SCOPE OF THE PROCUREMENT POLICY PROGRAM

Mr. GASQUE. Mr. Chairman, the procurement policy program is designed to prescribe Government-wide policies and procedures relating to methods of procurement contracting. Under this program, we describe and prescribe the manner in which contracts are made, whether they may be made by formal advertising or by negotiation, and what the circumstances are which permit negotiation.

In addition the program prescribes the various economic and social contract clauses and provisions, and administrative procedures, which Government procurement must take into account, such as the assurance of the award of a fair share of Government contracts to small business under the Small Business Act, the question of labor surplus area concerns, and providing for equal employment opportunity through nondiscrimination.

These Government-wide policies and procedures are prescribed as Federal Procurement Regulations. We provide for the publication of these regulations in codified form, both in the Code of Federal Regulations, as chapter I of title 41, and in looseleaf form for distribution to and the use of Government agencies. The system of codification used is similar to the West Publishing Co. system of reports of Federal and State cases.

BUYING OPERATIONS

Mr. THOMAS. Where are your buying operations set out? They go from $7.7 million in 1964 up to $9.2 million. Where do you set those out?

Mr. TURPIN. The buying operations start on page 121 of the justifications.

Mr. THOMAS. You do not break it out clearly here. You have "Performance costs for buying, review specifications, price sources, evaluation of items, awarding and administering contracts." How many people do you have doing that?

You have set out the store-buying items but it could be regrouped a little more clearly than you have it here. Can you do it that way in the future?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. That is one of your big items of expense, $9 million, and then you give us some nice language here at the top of page 121 but you do not show how many people. You then give us a green sheet on page 126, also. You have 839 people in 1962 and in 1964 it goes up to 1,192. The figure for the Department is 427 in 1964 and your whole tale is here on your green sheets and that is about all.

Mr. TURPIN. Sir, it is broken down beginning on page 121 by type of buying.

Mr. THOMAS. I see that here but then in your nonstore items you set it out in terms of dollars but not in terms of employment. In stores buying, you set that out in terms of dollars and unit costs but not in terms of personnel.

Then you use this good language, "* * * Increased program for each mode primarily related to the progressively expanded * * *," and so forth. You let it go at that. You have two very confusing titles and one rings a bell with most everybody and that is buying operations.

You relegate that to about a third spot.

Next year change it around and make it a little bit clearer.

Mr. TURPIN. Yes, sir. I believe one of the problems is that the same personnel buy store items, nonstore items, and schedule items.

Mr. THOMAS. We understand that but you go to a lot of trouble here setting out supply standards where you have about one-fourth of the people involved.

STANDARDS AND QUALITY CONTROL

Let us put pages 127 and 128 in the record.

(The pages follow:)

Standards and quality control

	Amount	Average employment		
		Department	Field	Total
1963	$5,945,700	257.8	341.7	599.5
Change	+885,300	+32.0	+42.4	+74.4
1964	6,831,000	289.8	384.1	673.9

HIGHLIGHT

"(a) *Supply standards*

"Standards of quality and other characteristics of common-use commodities are established by specifications, qualified products lists, and uniform item identifications for mandatory use by Government agencies. The estimated workload for 1963 and 1964 is based primarily on the expanded supply support program of General Services Administration. The cataloging program results in establishing a uniform identification for each item of supply and establishes a basis for expansion of supply support for General Services Administration once the commonality of the items is revealed.

"(b) *Quality control*

"Timely delivery of commodities of specified quality is assured by inspection at contractor's plants or supply depots, by laboratory tests and analyses of samples prior to acceptance, and by contract administration assistance." (From the budget for 1964.)

Summary of performance cost

	1962	1963	1964
Standards and quality control	$4,620,695	$5,945,700	$6,831,000
(a) Supply standards	2,044,545	2,339,000	2,651,000
(1) Federal specifications and standards	614,265	769,500	918,000
(2) Federal catalog participation	1,430,280	1,569,500	1,733,000
(b) Quality control	2,576,150	3,606,700	4,180,000
(1) Stores items inspected	1,663,000	1,989,700	2,490,400
(2) Nonstores items inspected	696,000	1,065,000	1,084,200
(3) Schedule items inspected	217,150	552,000	605,400

JUSTIFICATION

(a) Supply standards

This program provides essential tools for effective management of supplies by GSA and the civil agencies and enhances GSA's capabilities to provide responsive supply support to other civil agencies and to the DOD. The program consists of three elements: Development of specifications, development of standards, and cataloging.

Federal specifications are procurement tools. They are formal expressions of the characteristics and requirements of items which the Government wants to buy. They establish quality levels to be met and provide testing procedures to check the quality.

Federal standards for commodities limit the range of acceptable items to be procured, thus holding to a minimum the variety of items required to meet the needs of Government agencies. Other Federal standards cover procedures, practices, and techniques.

Cataloging involves researching item identification data to clearly establish the essential characteristics of an item, and the recording of those characteristics to permit comparison with other items to determine duplicates or establish uniqueness. The result is that an item is identified by the same name, description, and stock number regardless of who makes it, who uses it, or the purpose for which it is used.

(1) *Federal specifications and standards.*—Since Federal specifications are procurement tools, the need for development of new specifications or the revision of existing specifications to express present technology increases as the range of items procured by GSA increases. The projected workload for 1963 and 1964 is based on the estimated procurement program. It is estimated that GSA will procure 25 percent more new items in 1964 than in 1963. To provide current specifications required to procure the increased number of new items in 1964, it is estimated that 406 new Federal specifications and 893 amendments and revisions to existing specifications will be necessary. In addition, GSA in progressively assuming responsibility for the development and updating of Federal specifications for items which GSA is supplying to DOD (heretofore the responsibility of DOD).

The number of Federal standards (42 new Federal standards and 45 amendments and revisions) projected for 1964 is based on the commodity areas in which item reduction programs will be completed. The data developed will be utilized in standards which will limit the range of items to be procured to the minimum required to meet Government needs.

The increase in unit costs attributable to the Federal Salary Reform Act of 1962, is $24 in 1963 and $45 in 1964. On a comparable basis with 1962 the unit cost for 1963 and 1964 would be $631 and $617, respectively.

	1962	1963	1964
New specifications	335	345	406
Amendments and revised specifications	590	760	893
New standards	18	35	42
Amendments and revised standards	17	34	45
Total actions performed	960	1,174	1,386
Unit cost	$640	$655	$662
Performance cost	$614,265	$769,500	$918,000

(2) *Federal catalog participation.*—In 1962, 59.1 percent of GSA's procurement was in support of DOD. The remaining 40.9 percent included only a relatively small portion of the total procurement by civil agencies. A prerequisite to increasing GSA's supply support to other civil agencies is the completion of cataloging all civil agency items in the Federal catalog system. Until this is accomplished, accurate knowledge of what identical or similar items are used by more than one agency does not exist. It is this knowledge which provides the strongest force toward extending supply support to civil agencies of long supply or excesses generated either in the civil agencies or DOD. To accelerate the cataloging of items used by civil agencies, we have programed the completion of 97,000 items in 1963 and 115,100 items in 1964.

This program also includes as a prerequisite to increased GSA supply support to DOD, a joint GSA–DOD technical review of homogeneous groups of items to determine which items can be eliminated to reduce to a minimum the varieties and sizes of items procured to meet user requirements. During 1962, such reviews resulted in recommendations to discontinue 34 percent of the 56,274 items reviewed.

Also included in the cost for operating the catalog system are (1) reimbursement to DOD for services in processing data and assigning stock numbers ($150,000) and (2) maintenance of items already cataloged including revisions to item identifications and the addition of management data.

The increase in unit costs attributable to the Federal Salary Reform Act of 1962 is $0.29 in 1963 and $0.62 in 1964. On a comparable basis with 1962 the unit cost for 1963 and 1964 would be $8.45 and $7.90, respectively.

	1962	1963	1964
Items identified	63,153	97,000	115,100
Catalog maintenance actions		39,200	39,300
Item simplification and TDR	99,541	43,300	49,000
Total actions performed	162,694	179,500	203,400
Unit cost	$8.79	$8.74	$8.52
Performance cost	$1,430,280	$1,569,500	$1,733,000

QUALITY CONTROL

Mr. THOMAS (reading):

Timely delivery of commodities of specified quality is assured by inspection at contractor's plants or supply depots, by laboratory tests and analyses of samples prior to acceptance, and by contract administration assistance.

We have been to your supply depots and you have some chemists working in a little laboratory where you examine and test paint and paper and so forth, but what about the other 150,000 items that you buy? I have looked over the laboratories and I feel that if you can test 1 item out of every 2,000 that you buy, you would be doing a pretty good job with the tools and equipment you have. Are you overplaying this a little bit?

Mr. BOUTIN. Mr. Chairman, an awful lot of this is inspection for quality, compliance with specifications, right at the source of manufacture.

Mr. THOMAS. How many people do you have doing that? That is what we are getting into.

Mr. RITTER. 334 on board now.

Mr. THOMAS. Doing what?

Mr. RITTER. They are performing inspection primarily.

Mr. THOMAS. At the source?

Mr. RITTER. At the plant, at the source. Eighty-three percent of the stores and nonstores products we buy now are inspected at the manufacturers' plants.

Mr. THOMAS. Under "Supply standards" you have Federal specifications and standards, $918,000, and then you throw in "Catalog participation." I do not know where that gets in.

Down here under "Quality control" you show a cost of $2,490,400, and then under "Nonstore items inspected," $1,084,200, and "Scheduled items inspected, $605,400."

What is your entire inspection cost, around $4 million?

Mr. RITTER. Yes, sir.

Mr. BOUTIN. $4,180,000.

Mr. THOMAS. How many people do you have involved in that?

Mr. BOUTIN. 440 are projected for 1964, Mr. Chairman.

Mr. THOMAS. That is not very well set out, is it?

Mr. TURPIN. The breakout of the employment, Mr. Chairman, is on the bottom of page 130 by the number in specifications and standards, the number in cataloging and the number in quality control.

Mr. THOMAS. Let us put pages 129 and 130 in the record.

(The pages follow:)

Quality control.—The quantity of defective material received into the supply system is directly related to the level of quality control and contract administration effort. In 1962, $9.6 million of material was rejected as being unacceptable and it is estimated that $11.7 million and $13.1 million will be rejected in 1963 and 1964, respectively. Even at the 1962 level of rejections an increasing quantity of defective merchandise is getting into the supply system as revealed by the complaints from customer agencies which increased from 2,867 in 1961 to 3,285 in 1962.

If materials shipped overseas are found not to meet GSA standards or are not usable in the condition received there are two solutions: (1) pay an oversea contractor to put the merchandise in proper condition, and send an inspector overseas to insure that the work is completed and meets the desired standard, or (2) dispose of the items, usually at a loss, and buy new items, pack, and ship them overseas. These alternatives create an expense that would not be necessary if adequate inspection coverage is initially provided.

Costs are related to the value of material inspected as set forth below:

	1962	1963	1964
(1) Stores items inspected (millions)	$297.7	$351.6	$440.0
Unit cost (per $100)	0.56	0.57	0.57
Performance cost	1,663,000	1,989,700	2,490,400

The volume of stores items to be inspected is the total of stores items purchased. The increase in unit costs attributable to the Federal Salary Reform Act of 1962, is $0.02 in 1963 and $0.04 in 1964. On a comparable basis with 1962 the unit cost for 1963 and 1964 would be $0.55 and $0.53. The improved unit cost of stores items inspection is the result of improved performance standards, better quality control by vendors, and additional suppliers being placed under quality assurance permitting them to ship merchandise on their own certification of compliance with contract provisions.

	1962	1963	1964
(2) Nonstores items inspected (millions)	$182.5	$200.0	$204.6
Unit cost (per $100)	0.38	0.53	0.53
Performance cost	696,000	1,065,000	1,084,200

The volume of nonstores items to be inspected in 1963 and 1964 reflects the total purchased. The slight variation from the buying level discussed in subactivity "1b(2) Nonstores items buying" represents undelivered orders at end of year.

The increase in unit costs from $0.38 in 1962 to $0.53 in 1964, represents an increase of $0.06 relating to the cost of the Federal Salary Reform Act of 1962, and $0.09 cost of increased quality of our coverage of nonstores items. In 1962, because of the unexpected volume of nonstores merchandise to be inspected, sampling techniques had to be varied by increasing sample sizes and reducing the number of samples taken to a dangerous level, with the result that unsuitable merchandise entered the supply system.

	1962	1963	1964
(3) Federal supply schedule items inspected (millions)	$163.1	$230.5	$250.0
Unit cost (per $100)	0.13	0.24	0.24
Performance cost	217,150	552,000	605,400

The volume of Federal supply schedule merchandise to be inspected is 30 percent of the total value of Federal supply schedule purchases. This is the same percentage as programed for 1963. The unit cost of $0.24 also remains at the 1963 level. The increase over the actual $0.13 per $100 in 1962 to $0.24 in 1963 and 1964 is chiefly attributable to the increased level of quality control necessary for many of the schedule contracts, increased contract administration assistance, and the necessity to assure that orders to schedule contractors for shipment overseas are afforded the priority treatment the purchasing agency requires. Two of the prerequisites and incentives for DOD oversea installations to use the Federal supply schedules are (1) that such merchandise is inspected prior to shipment to insure that it meets specifications, and (2) that such merchandise is expedited to assure that it is delivered within the time required.

EXPLANATION OF DISTRIBUTION BY OBJECTS

(See Activity Data Sheets)

Personnel compensation and staffing: $5,349,800 provides for 725 positions, an increase of 46 positions (74.4 average employment) over 1963 distributed as follows:

	1962			1963			1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
Federal specifications and standards	71.0	----	71.0	79.0	----	79.0	95.0	----	95.0
Federal catalog participation	156.0	----	156.0	160.0	----	160.0	190.0	----	190.0
Quality control	28.0	276.0	304.0	34.0	406.0	440.0	34.0	406.0	440.0
Total positions	255.0	276.0	531.0	273.0	406.0	679.0	319.0	406.0	725.0
Average employment	213.9	249.2	463.1	257.8	341.7	599.5	289.8	384.1	673.9

EMPLOYMENT FOR STANDARDS AND QUALITY CONTROL

Mr. THOMAS. What importance do you put on your quality control? What importance do you put on it as compared with your Federal standards and specifications? How many people do you have in specifications and standards?

Mr. RITTER. In specifications——

Mr. THOMAS. I mean these two categories. You put this thing in formation for the last 2 or 3 years and see if we cannot regroup it next year and break it down so it is a little bit clearer and simpler.

Instead of using that broad generic language, saying that these are buyers, that these are inspectors, say these are "catalog people" and we can understand that and maybe you will, too.

Mr. RITTER. We need 285 people in standards, specifications, and cataloging for 1964.

Mr. THOMAS. What is the difference between standards and cataloging now?

Mr. RITTER. The one function is the development of specifications and standards for procurement that set forth what we want to buy and the quality levels we want. The cataloging people identify the

items that not only we procure, but all of the civil agencies' procurement.

Mr. THOMAS. Yet you throw them altogether as one item.

Mr. RITTER. They are separated actually on page 129.

Mr. THOMAS. Two separate and distinct functions and the only connection between the two is that you are going to print what you finally come up with in the way of standards?

Mr. RITTER. They are actually in one organization, sir, but we set forth the costs separately because there are different work factors involved. The specifications and standards breakout is on page 128 and cataloging on page 129.

Mr. THOMAS. Then you wrap it up on page 130. In specifications and standards, you have 95 people and in cataloging, 190; and quality control, 440.

What do you mean by quality control?

Mr. RITTER. They are the inspectors and the people who work on contract administration out in the plants.

Mr. BOUTIN. It is interesting to not here, Mr. Chairman, that some contractors who have had difficulty in meeting government specifications, these quality control people, particularly in small business, have been able to help these fellows get their ducks in a row so they can produce and meet the standards.

Mr. THOMAS. Are you topheavy in any of these two fields?

Next year break this down in chronological order under "Quality control" and call them inspectors. That is what they are. Tell us what their function is. It is to go out and see that your plans and specifications come up to snuff and that is all they are doing; is that right?

In these three operations, how many people do you have? How many people do you have in standards and inspection and in procurement and supply coordination? Where is that table on employment?

Mr. TURPIN. The total, sir, for those groups you are talking about, appears at the bottom of page 130.

Mr. THOMAS. This is the complete wrap-up at the bottom of page 130?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. That is already in the record.

The figure for Federal specification standards is 95; Federal cataloging, 190; quality control, 440.

Those are your inspectors and the total is 725; but where are the rest of them? For doing these same jobs in 1963, you had 679 but the total employment throughout is 1,673. Are the rest of them going back to the stores?

Mr. TURPIN. Sir, the average employment of 673.9, the total positions is 725 in 1964 for this activity.

TOTAL FEDERAL SUPPLY EMPLOYMENT

Mr. THOMAS. What is the total number you have in the supply system? This 725 covers three activities?

Mr. TURPIN. Yes, sir. The total in the whole area would show up on the green sheet on page 140, which is the grand total of 4,145.

Mr. THOMAS. You have to go way back here to your summary table for that?

Mr. TURPIN. Yes, sir. It is back in the summary table and we present it at the beginning of the appropriation item, also.

Mr. THOMAS. This is at the very first page and it is all broken out there. It shows the increase for supply operation and supply distribution. Then your buying operations, standards, quality control, procurement policy, supply coordination, are all shown, and then you come in with the administrative operation.

What is the total employment here?

Mr. TURPIN. The total man-years under the OEFSS appropriation is 3,880.7. That is average employment for the year and then the additional employment in the FSS area financed from reimbursable sources is 506.8 or a grand total of 4,387.5.

Mr. THOMAS. I do not follow those figures.

You have your total employment of 3,553 for 1964.

Mr. TURPIN. That is in the field.

Mr. THOMAS. Then for 1964, you have a total of 4,387 as against 3,517 in 1963.

Mr. TURPIN. I did not get the figure for 1963.

Mr. THOMAS. 3,517?

Mr. TURPIN. That is correct.

Mr. THOMAS. Can you get along without that increase in personnel?

Mr. BOUTIN. Not and do the business, Mr. Chairman.

Mr. THOMAS. Where is the increase mostly needed?

Mr. BOUTIN. It is mostly in "supply operations."

Mr. THOMAS. Is it needed in your stores? Is that where the day-to-day work is done?

It is much easier to buy than it is to sell, is it not, Mr. Bean?

Mr. BEAN. Very much.

Mr. THOMAS. A group of 10 people can buy a million dollars' worth of merchandise, or they can buy $30 million?

NET ADDITIONAL ITEMS OF SUPPLY

Mr. TURPIN. I think the supply people could probably talk better on this than I, but it is not just a matter of buying more of the same items. There are additional items being introduced into the system which require additional time on the part of the buyers and also on the part of quality control.

Mr. BOUTIN. If we get too thin, Mr. Chairman, we will have recurrencies of the very thing you were talking about yesterday. If you try to do too much without an adequate staff, you do not do it well. Our production standards here are very rigid.

Mr. THOMAS. One year you will add a thousand items and then you will take out practically half of the number, and maybe more.

What would you say, Mr. Bean, is an average net increase a year in the number of items?

Mr. BEAN. Well, I have a table here on that.

In October we had 11,350 items in stock; in November we added 456, and in April we will add 251. We have gone up over 600 items in the last 3 months.

Mr. THOMAS. Out of a total of how many?

Mr. BEAN. This would go from 11,350——

Mr. THOMAS. Cataloging of what?

Mr. BEAN. This is the store stock catalog. It would go to 11,394 in a 3-month period.

Mr. BOUTIN. This is just stores.

Mr. THOMAS. What is a good horseback opinion of your net increase in your stores now of what you are taking out and putting in? Would it be 5 percent a year? What does it average a year? An item does not move and that is pretty easy to take out, but your trouble is in describing the new ones you put in?

Mr. BEAN. We took out 153 while we were adding more than 700, so the dropouts are not very great. The increase based on this experience would be about 1,200 a year, and that would be 10 percent.

Mr. THOMAS. Ten percent?

Mr. BEAN. Yes, sir. This would work out 1,200 for a full-year basis.

Mr. EVINS. All your manufacturers have new products they want to sell the Government and once you stock them, how frequently do these new items turn over? How much demand is there for them in the agencies?

Mr. BEAN. Our overall stock turnover on stores items is three times a year.

Mr. EVINS. I am talking about the new items.

Mr. BEAN. Some new items sell like wildfire and others do not do as well, naturally; but we stick very closely to staple common-use items, and that is the only way we get a three-time turnover.

Mr. BOUTIN. In the civil agency supply systems around 30,000 items a year drop out?

Mr. RITTER. There are 100,000 additional items each year and 30,000 drop out, in the total civil agencies' supply systems.

Mr. THOMAS. What?

Mr. RITTER. About a third.

Mr. THOMAS. The addition is about 10 percent?

Mr. RITTER. 100,000 per year, about 10 percent.

SERVICE DIRECTION—FSS

Mr. THOMAS. Let us get to "Service direction." This is the administrative office on page 138. Put this in the record.

(The page referred to follows:)

4. Service direction

	Amount	Average employment		
		Departmental	Field	Total
1963	$848,000	19.0	35.9	54.9
Change	+138,000	−.2		−.2
1964	986,000	18.8	35.9	54.7

HIGHLIGHT

General supervision over all programs assigned to the Federal Supply Service is provided.

This activity provides for the Office of the Commissioner, FSS, in the Central Office, Office of the Regional Director, FSS, in each of the regional offices, and penalty mail costs for reimbursement to the Post Office Department for the entire Federal Supply Service operations.

General supervision:

1962	$765,687
1963	848,000
1964	986,000

JUSTIFICATION

The increase in this activity in 1963 and 1964 is attributable to the additional payments to the Post Office Department for penalty mail costs, and additional costs for the 1962 Pay Act.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $586,000 for 55 positions, the same as 1963, distributed as follows:

	1962	1963	1964
Central office	20.0	19.0	19.0
Regional offices	35.0	36.0	36.0
Total positions	55.0	55.0	55.0
Average employment	51.2	54.9	54.7

Other objects: $400,000 provides:

(1) $43,600 is for personnel benefits, including $38,100 retirement contributions, $3,600 health benefits, and $1,900 group insurance.

(2) $302,900 for communications, including $284,700 for postage fees.

The remainder of $53,500, or 5.4 percent of total estimate, provides:

(3) $28,000 for 966 days travel at $29 per day, and $3,000 for motor pool services.

(4) $10,000 printing; $5,500 contractual services; $7,000 supplies.

Mr. THOMAS. This shows $848,000 for 1963 and $986,000 for 1964. It shows no increase in employment but a decrease of 0.2; that is 54.9 as against 54.7. You say:

This activity provides for the Office of the Commissioner, FSS, in the Central Office, Office of the Regional Director, FSS, in each of the regional offices, and penalty mail costs for reimbursement to the Post Office Department for the entire Federal Supply Service operations.

We might take a look at the green sheet on page 139.

You have there 1 GS–18, 1 GS–17, and 13 GS–15's.

Mr. EVINS. Is that too low for Mr. Bean?

Mr. THOMAS. Yes. No question about that.

SUMMARY OF ALL FSS OTHER OBJECTS

We might put page 141 in the record. This is the summary for what—$25 million of other objects? It does not give us very much detail.

(The page follows:)

SUMMARY STATEMENT ON "OTHER OBJECTS" FOR 1964

Although amounts for obligations by objects are explained in justifications of each activity, objects other than personnel compensation are summarized

below. Of the $51 million estimate, $26,006,100 is for personnel compensation and $24,993,900 for other objects as follows:

12 Personnel benefits, $1,886,700: $1,619,200 for direct contribution to retirement fund, $164,700 health benefits, $81,800 group insurance, $10,300 FICA, and $10,700 for accident claims.

21 Travel and transportation of persons, $861,000: $682,700 for 25,215 days travel and $178,300 for motor pool services.

22 Transportation of things, $421,200: Provides for motor pool truck services, relocating warehouses, transshipment of stocks between warehouses, demurrage, merchandise returns and miscellaneous transportation charges.

23 Rent, communications, and utilities, $3,110,200: $1,899,000 for space rental and utility costs, $482,000 equipment rental, $284,700 postage fees, and $444,500 for normal telephone and teletype services.

24 Printing and reproduction, $1,736,100: $757,500 for ADP forms, order processing forms and other warehouse operating forms; $650,000 for schedules, invitations to bid, purchase documents and related forms; $135,000 for GSA stores stock catalogs; $47,200 for item identification cards; $51,000 for specifications and standards; $44,600 for Government-wide Federal Procurement Regulations; and Government-wide regular procedure and handbooks in various areas of supply management; and $50,800 for miscellaneous printing including supply management procedures, and revisions to Federal Procurement Regulations.

25 Other services, $4,188,300: For janitorial, guard, maintenance and miscellaneous services reimbursable to BM fund, warehouse relocations, contract labor and operating equipment repairs, laboratory testing and inspections, payments to commercial contractors and GSF for office equipment repair and other miscellaneous services, and contract cataloging for field installations.

25 Payment to administrative operations fund, $10,589,000: For administrative operation necessary to support this program.

25 Services of other agencies, $1,355,800: For maintenance and handling costs for inventory housed in military depots; financing GSA share of the President's Committee on Equal Employment Opportunity; laboratory testing; reimbursement to the National Bureau of Standards for tests, research and development of security equipment to comply with provisions of Executive Order 10501; cataloging services rendered by DOD; health room charges; security investigations; and other miscellaneous services.

26 Supplies and materials, $678,500: $241,500 for administrative supplies and materials; $409,000 for operating supplies; and $28,000 for other miscellaneous supplies including materials for testing, and Federal supply specifications donated to prospective bidders and other Government agencies.

31 Equipment, $167,100: For office equipment for additional employees, and for replacement of obsolete equipment.

Mr. THOMAS. Can you do anything about your "Other objects"? What are your "Other objects" costing you, altogether? Your personal compensation is about $26 million, is it not?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. What do your "Other objects" cost you? You are asking $16 million for other services.

Mr. BOUTIN. The total for "Other objects" is about $25 million, Mr. Chairman, the $16 million provides for the administrative operations fund, services of other agencies, and payments to commercial contractors.

Mr. THOMAS. $26 million is for "Compensation"; $25 million for "Other objects," but that does not quite tell the tale when it is grouped like that. One of your big items is your "Administrative operations," $10.5 million, of which $5.2 million goes to ADP?

AUTOMATIC DATA PROCESSING COSTS

Mr. TURPIN. Yes, sir; about $5 million for ADP.

Mr. THOMAS. When we get over to that, we find Brother Turpin has expanded pretty well in the last 3 or 4 years. How old are you in this field? You have a big operation and you have all of your regional offices spending about $5 million a year for processing equipment.

What is your rental? I am going on memory but it is about $2 million.

Mr. TURPIN. That is right for 1963; and $2,150,000 for 1962.

Mr. THOMAS. We will get to you later and you had better have a good explanation.

You have been going higher and higher in buying this equipment and salary costs go up at the same time; where is the savings in this?

All you have to do is get a good answer when we get to you.

Mr. TURPIN. On this item, which is one of the big ones as far as the AO services are concerned, it represents one-third of our total.

Mr. THOMAS. You hang your hat on Brother Bean's shoulder. You say that if it had not been for you, his store costs, instead of being $11.1 million would be $20.9 million.

Mr. TURPIN. Based on the cost of doing business at the time we started mechanization, that is true, sir.

Mr. THOMAS. You get your answers ready. I know that you are going to have some good ones.

Mr. TURPIN. Yes, sir.

TRAVEL AND TRANSPORTATION—FEDERAL SUPPLY SERVICE

Mr. THOMAS. You cannot do a thing about personal benefits.

That is a matter of law, but what about your "Transportation of persons," $861,000?

Of that $178,300 goes to the "Motor pool"; "Transportation of things," $421,200 provides for motor pool truck services, relocating warehouses, transshipments of stock between warehouses, demurrage, purchase and return, miscellaneous. Does the transportation service pick up the costs for this? You pay the bill and they figure out your charge?

Mr. BOUTIN. That is right.

Mr. THOMAS. What about your transportation of persons?

Mr. BEAN. Transportation of persons covers all of the people who travel. The people in "Quality control," the inspectors, are in almost constant travel status.

Mr. THOMAS. What was this item for 1962, 1963, and 1964? You set that out?

Mr. TURPIN. The travel total for "Operating expenses, FSS" was $356,003 in 1962; estimated at $561,800 for 1963; and $682,700 for 1964. For motor pool travel it was $129,384 in 1962 and is projected at $165,600 in 1963 and $178,300 for 1964.

Mr. THOMAS. It goes up substantially, does it not?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Your travel bill is understandable last year because of the fact you had an increase in travel costs by statute.

Mr. BEAN. We have an increase in the number of manufacturers that we must travel to now. We go to more locations.

EQUIPMENT RENTAL—FEDERAL SUPPLY SERVICE

Mr. THOMAS. "Rent, communications and utilities," $3.1 million of which $1.9 million is for space rental and utility costs, $482,000 for equipment rental. Who are you paying for the equipment rental?

Mr. BOUTIN. This is reimbursable to the general supply fund. It is really a depreciation amount, Mr. Chairman. We do not pay but very little rental to the outside. This is almost all internal; is that right, Mr. Bean?

Mr. BEAN. That is correct.

Mr. THOMAS. What is the nature of this equipment?

Mr. BOUTIN. Forklift equipment is the big item.

Mr. BEAN. Probably the biggest item.

Mr. THOMAS. You do not charge it here to depreciation but you take depreciation money and buy new equipment with it; is that the way you are operating?

Mr. BOUTIN. That is right, Mr. Chairman. The initial investment is in the general supply fund.

Mr. THOMAS. You depreciate it and use your depreciation to buy new equipment?

Mr. BOUTIN. That is correct; forklift trucks, battery-charging equipment for our forklift trucks, and that type of thing.

Mr. THOMAS. I thought you were in Government space in most of your warehouses, yet you have $1.9 million for rent.

Mr. BOUTIN. We are paying big rentals still, Mr. Chairman, at Atlanta, Ga.; Chicago, and at Franconia here in the Washington area.

FRANCONIA WAREHOUSE

Mr. THOMAS. What are you paying for that space in Franconia per square foot?

Mr. BEAN. 99 cents a square foot, for all costs.

Mr. THOMAS. That is in that old big building?

Mr. BOUTIN. That big one; yes.

Mr. THOMAS. Who owns that building?

Mr. BOUTIN. It is owned by Park Avenue Methodist Church in New York.

Mr. THOMAS. How many square feet are there?

Mr. BOUTIN. FSS has a total of 704,000 square feet.

Mr. THOMAS. It is a nice contract but what goes with that?

Mr. BOUTIN. They maintain the building itself.

Mr. THOMAS. What about the heat, light, and water?

Mr. BEAN. We pay for that.

Mr. THOMAS. That is a pretty nice contract; is it not?

Mr. BOUTIN. This is the one we were telling the committee about. We have an option to buy in 1965. We are going to ask the Bureau to let us request funds from the Congress to exercise the option.

Mr. THOMAS. How old is that building, 5 or 6 years old?

Mr. BOUTIN. I think it is about 10 years old.

Mr. THOMAS. It was built for GSA and you have been renting it ever since?

Mr. BOUTIN. Renting it ever since.

Mr. THOMAS. It paid itself out 2 years ago; did it not?

You had a 10-year lease and at 99 cents a square foot, you have had about a 6-year amortization period? You did not get that from the Methodist people but from a corporation?

Mr. BOUTIN. The Park Avenue Methodist Church bought it from the original investors.

Mr. THOMAS. What is the name of that outfit? You have half a dozen scattered all over the country.

Mr. MCGEE. Mr. Parr.

Mr. TURPIN. There might be a little confusion on this. That 99 cents per square foot includes all utilities and janitorial and guard services. Rent alone is 65.5 cents per square foot.

Mr. THOMAS. That is a whole lot better; is it not?

Mr. EVINS. How much have you paid out in rent so far over 10 years?

Mr. THOMAS. $7.5 million?

Mr. TURPIN. It is about $461,100 a year for the FSS portion. We have paid a total of $8.5 million, through January 1963, for all of the facility.

Mr. THOMAS. When you pay your utility and guard services, it costs 99 cents a square foot?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. How much is the building worth?

Mr. BOUTIN. The original investment was around $10 million, I believe.

Mr. THOMAS. You mean $10 a square foot for construction but with 750,000 square feet, a good price would have been $3.50 per square foot.

Mr. BOUTIN. I am informed that the present owners paid about $6.6 million in 1954 for the Franconia property.

Mr. EVINS. You paid in rent way more than the building cost?

Mr. THOMAS. Easy.

I bet that when the building was constructed the net rental cost of 65 cents a square foot was not much more than a 6-year payout.

PRINTING AND REPRODUCTION—FEDERAL SUPPLY SERVICE

What about your "Printing and reproduction" item of $1,736,100: $757,500 for ADP forms, order processing forms and other warehouse operating forms; $650,000 for schedules, invitations to bid, purchase documents, and related forms; $135,000 for GSA stores stock catalogs; $47,200 for item identification cards; $51,000 for specifications and standards; $44,600 for Government-wide Federal Procurement Regulations; and Government-wide regular procedure nad handbooks in various areas of supply management; and $50,800 for miscellaneous printing including suppply management procedures, and revisions to Federal Procurement Regulations.

Who does all of this printing for you; is this by contract?

Mr. TURPIN. All of the printing is arranged for through our printing shop. They do some of it in-house and the larger items are done by the Government Printing Office.

Mr. THOMAS. None let by private contract?

Mr. TURPIN. We purchase marginally punched continuous forms and ADP cards under GPO term contracts from commercial sources.

Mr. THOMAS. Then you have $50,800 for "Miscellaneous printing," including supply management procedures and revisions to Federal Procurement Regulations.

Do you have any of your advertising material and the forms that you have to have in this figure?

What else do you have besides your forms?

Mr. BEAN. We have some samples of that here.

Mr. BOUTIN. This is a catalog of items available through Clearfield, Mr. Chairman.

Mr. BEAN. This is a self-service depot. That catalog goes to the people in Utah and a radius of around 50 miles from there.

Mr. THOMAS. You print one of those for each one of your big regional warehouses?

Mr. BEAN. No, sir; the one for all the regional warehouses is the same all over the country. We carry the identical items in every warehouse.

Mr. THOMAS. Your catalog is vital to your operation, is it?

Mr. BEAN. Yes, sir.

Here is the national store stock catalog. We cannot do business without it.

Mr. EVINS. You just put a new jacket on for each region?

Mr. BEAN. No; the same jacket. The Clearfield catalog is a special item. The other one is not.

MAINTENANCE AND MISCELLANEOUS SERVICES

Mr. THOMAS. You have "Other services" of $4,188,300 for janitorial, guard, maintenance, and miscellaneous services reimbursable to buildings management fund, warehouse relocations, contract labor, and operating equipment repairs.

I thought you included janitorial and guard and maintenance service in your big warehouses in the 99-cent figure; are you duplicating this item here?

Mr. TURPIN. No, sir, that was for only Franconia. Most of this item is for Government-owned locations where it is done through the buildings management fund.

GOVERNMENT OWNED AND LEASED WAREHOUSE SPACE

Mr. THOMAS. How many buildings does the "Supply service" have and what part of that number is Government-owned and what part is leased?

Mr. BOUTIN. We are in 31 locations, Mr. Chairman, and of those 31, we still have 3 that are leased with the exception of several locations where we have what we call our retail stores.

Mr. THOMAS. Those are your little ones; the big ones are all Government-owned property except three?

Mr. BOUTIN. Atlanta, Chicago, and Franconia, sir.

Mr. THOMAS. Franconia is the big one?

Mr. BOUTIN. Yes, sir.

WAREHOUSE SPACE IN CHICAGO

Mr. THOMAS. Where is the warehouse in Chicago?

Mr. BOUTIN. The one in Chicago is right across the street from the old Ford plant. It is in the same complex as the Records Center.

Mr. EVINS. West Side?

Mr. THOMAS. He is talking about the big warehouse?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. There is an old military installation you took over—is that a military installation?

Mr. BOUTIN. No; this is not. The Ford plant was an Air Force plant.

Mr. THOMAS. That is Government-owned space?

Mr. BOUTIN. That is Government-owned.

Mr. THOMAS. You said a while ago, or perhaps I misunderstood you, that you were renting that space?

Mr. BOUTIN. We are renting the space Federal Supply is now occupying.

Mr. THOMAS. From whom?

Is it Government-owned?

Mr. BOUTIN. No, sir.

Mr. THOMAS. Who owns it?

Mr. MCGEE. Clearing Industrial District.

Mr. THOMAS. That was an old military installation, was it not?

Mr. BOUTIN. I doubt it ever was. This has all been built by them.

Mr. SPANGLER. The address is 7200 Leamington Avenue. It is in a new warehouse complex, fairly new.

Mr. THOMAS. Is this the one where you have to cross some railroad tracks and it is not very easy to get in and out of?

Mr. BEAN. No, sir.

Mr. THOMAS. I am mixed up on the location then.

SERVICES OF OTHER AGENCIES

What about your "Services of other agencies," $1,355,800 for maintenance and handling costs for inventory housed, in military depots; financing GSA share of the President's Committee on Equal Employment Opportunity; laboratory testing; reimbursement to the National Bureau of Standards for tests, research and development of security equipment to comply with provisions of Executive Order 10501; Cataloging services rendered by DOD; health room charges, security investigations, and other miscellaneous services.

Mr. RITTER. That is largely reimbursement which we give to the Department of Defense for the central processing of cataloging data. It is purely a service charge, no printing is involved.

Mr. THOMAS. For maintenance and handling costs for inventory housed in military depots, you set out this cost of $1,355,800, or is that the overall item cost?

Mr. BOUTIN. That is the overall item cost.

Mr. THOMAS. What do you pay for inventory housed in military depots? Do you have to make a contribution to the military where you have a little center there. That is all it is, is it not?

Mr. BOUTIN. No; for instance in Fort Worth we are in there on a permit basis from the military. We do not have to hire our own guards for the whole property. We reimburse them for part of these costs.

Mr. BEAN. That is correct.

Mr. THOMAS. That is your big depot?

Mr. BEAN. That is correct.

Mr. THOMAS. What do you pay for that?

Mr. BEAN. No charge for the building itself, just for the services.

Mr. THOMAS. Guard service, utility costs, and so forth?

Mr. BOUTIN. Yes, sir.

Mr. BEAN. Heat, janitorial, and guard services.

Mr. EVINS. Our friend from Fort Worth got a good deal on that, Mr. Chairman.

Mr. BOUTIN. GSA got a good deal.

Mr. THOMAS. Who owns that property?

Mr. BOUTIN. The Army. We also have some DMS open storage there, Mr. Chairman.

SUPPLIES AND MATERIALS—FSS

Mr. THOMAS. Supplies and materials, $678,500; $241,500 for administrative supplies and materials; $409,000 for operating supplies.

Mr. BEAN. We need operating supplies for handling our merchandise. Shipping cartons are a big part of it.

Mr. THOMAS. Administrative supplies and materials, $241,500 and then these other supplies, $409,000.

Mr. TURPIN. That $409,000 is for "Operating supplies." That would be mostly in the warehouses, as Mr. Bean indicated, for packing and crating materials. I believe those are the supplies for the people in OEFSS, the employees there.

General Supply Fund

Object classification

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
GENERAL SERVICES ADMINISTRATION			
Direct costs:			
31 Equipment	10,070	18,182	14,740
Reimbursable costs:			
11 Personnel compensation:			
Permanent positions	3,053	3,541	3,675
Positions other than permanent	45		
Other personnel compensation	96	6	34
Total personnel compensation	3,194	3,547	3,709
12 Personnel benefits	238	252	262
21 Travel and transportation of persons	92	120	120
Payment to interagency motor pools	2	2	2
22 Transportation of things	7,171	10,320	13,100
23 Rent, communications, and utilities	653	670	700
24 Printing and reproduction	38	50	65
25 Other services	7,709	12,740	13,845
Payment to administrative operations fund	532	500	500
Service of other agencies	1,401	2,300	3,000
26 Supplies and materials	6,903	8,100	9,300
Materials supplied to other agencies	401,068	500,300	596,000
Total reimbursable costs	429,001	538,901	640,604
Total, General Services Administration	439,071	557,083	655,344
ALLOCATION TO INTERIOR, BONNEVILLE POWER ADMINISTRATION			
25 Other services: Services of other agencies	796	796	796
Total costs	439,868	557,879	656,140
Change in selected resources	68,609	47,634	41,000
Adjustment in selected resources		−5,000	−3,000
Total obligations	508,478	600,513	694,140

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	557	591	594
Full-time equivalent of other positions	7		
Average number of all employees	508	561	566
Number of employees at end of year	542	586	590
Average GS grade	7.1	7.3	7.3
Average GS salary	$6,265	$6,737	$6,784
Average salary of ungraded positions	$5,940	$5,995	$6,048

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
Operating costs, funded:			
1. Supply operations:			
(a) Stores, regular	227,936	296,400	364,000
(b) Stores, direct delivery	33,922	47,000	66,000
(c) Nonstores items	139,210	156,900	166,000
2. Export packing	10,904	16,500	22,000
3. Rehabilitation and repair of furniture and equipment	2,204	4,900	5,300
4. Motor pools	15,603	17,997	18,100
Undistributed	18		
Total operating costs, funded	429,797	539,697	641,400
Capital outlay:			
1. Supply operations: Stores items: Purchase of materials handling and laboratory equipment	962	2,700	2,700
4. Motor pools: Purchase of equipment	9,108	15,482	12,040
Total capital outlay	10,070	18,182	14,740
Total program costs, funded	439,868	557,879	656,140
Change in selected resources [1]	68,609	47,634	41,000
Adjustment in selected resources (inventory from Department of Defense)		−5,000	−3,000
Total obligations	508,478	600,513	696,140
Financing:			
New obligational authority:			
Appropriation	13,500	13,500	35,000
Proposed for separate transmittal		30,000	
Revenues and other receipts:			
Supply operations:			
(a) Stores, regular· Revenue	229,637	296,400	364,000
(b) Stores, direct delivery: Revenue	34,749	47,000	66,000
(c) Nonstores items: Revenue	139,210	156,900	166,000
Export packing: Revenue	10,666	16,500	22,000
Equipment rental: Revenue	312	393	492
Rehabilitation and repair of furniture and equipment: Revenue	2,216	4,900	5,300
Motor pools: Revenue	20,920	24,300	25,100
Undistributed receipts:			
Revenue	2,298	2,900	3,000
Proceeds from sale of equipment	1,570	2,100	2,270
Total revenues and other receipts	441,578	551,393	654,162
Balance brought forward:			
Unobligated balance	25,386		2,552
Obligations in excess of availability		−3,860	
Change in unfilled customers' orders	27,839	17,378	13,820
Capital transfer: Payment of earnings (−)	−3,685	−5,346	−3,000
Balance carried forward:			
Unobligated balance		−2,552	−8,394
Obligations in excess of availability	3,860		
Financing applied to program	508,478	600,513	694,140

[1] Balances of selected resources are identified on the statement of financial condition.

Mr. THOMAS. Let us take a look at "General supply fund" on page 142.

You have a deficiency coming up, do you not, for the fund? You have one for $30 million, for 1963, and you are seeking an increase here of $35 million for 1964. It is one deficiency but two increases; is that correct?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. Let us look at the status of the fund and the investment of the U.S. Government. [Reading:]

Investment of the U.S. Government in the fund at June 30, 1962, was $145,300,892, of which $129,250,000 represents direct appropriation; $593,733, capitalized surplus; $10,251,943 donated assets; and $5,346,476 retained earnings, with $141,260 deducted for long-term leave liability.

Is this accumulation of annual leave?

Mr. TURPIN. Yes, sir.

Mr. EVINS. Who donated the $10 million in assets?

Mr. TURPIN. That would come mainly from the vehicles that were taken in when the pools were established.

Mr. THOMAS. Retained earnings, as determined by General Accounting Office audit, must be paid to Treasury as miscellaneous receipts.

The payment in 1963 amounted to $5,346,476.

How do you accumulate that much money? Do all of these assets of $145,300,000 include the supplemental of $30 million you are seeking for the fund?

Mr. TURPIN. No, sir.

CASH POSITION

Mr. THOMAS. What is your cash position?

Mr. TURPIN. Our cash position as of the end of 1962 was $15.7 million. We estimate at the end of this year it will be $16.3 million. That is the working cash.

Mr. BOUTIN. And that is predicated upon the $30 million supplemental.

Mr. TURPIN. That is correct.

Mr. THOMAS. You are broke now. You are in the red $14 million. What did you do with that $145 million, Mr. Turpin?

Mr. BOUTIN. We are existing on advances, Mr. Chairman.

Mr. THOMAS. That hardly accounts for it.

Mr. TURPIN. Page 145, Mr. Chairman, sets that out pretty clearly.

Mr. THOMAS. We have already looked at that. You give us a bad picture here. You have cash customers that pay in 10 days or 2 weeks and your assets ought to be, within any given 30-day period, equal your $145 million cash you have in the till. You have no loss. You cannot have a loss unless you have a fire.

Mr. TURPIN. We have no loss and we usually try to come out as close to even as possible.

Mr. THOMAS. You have done better than that; you show a profit of $5 million. I want to commend you on that. You have some captive buyers. Mr. Bean could not be in business if he did not show a little profit.

Mr. TURPIN. Our objective is to come out less than $5 million, about $3 million.

Mr. THOMAS. We are not objecting to the $5 million. That is fine.

Mr. TURPIN. With respect to 1963, that is including——

Mr. THOMAS. Do not give us a lot of words, Brother Turpin. If you collect your bills in 10 days or 2 weeks, your cash position would be identical with the amount you started with, say, 60 or 90 days ago.

Mr. TURPIN. With respect to the cash on hand, that is to enable each of our regional offices to have cash so they can pay the vendors promptly.

Mr. THOMAS. Repeat that again.

Mr. TURPIN. The available cash on hand, working cash on hand, is what we have available for our 10 regional offices so they can pay the vendors promptly.

Mr. THOMAS. You mean to tell me you let the regional offices do the buying and paying?

Mr. TURPIN. Yes. The regional offices do all the paying for the procurements through the general supply fund.

Mr. THOMAS. Even though it is procured here by your buying staff?

Mr. TURPIN. Even where there are national contracts, purchase orders are prepared by the regional offices.

Mr. THOMAS. They buy here and it is shipped to the regional offices and the regional offices pay as they receive?

Mr. TURPIN. Yes, sir.

DISCOUNTS ON PURCHASES

Mr. THOMAS. Do you take a discount, too, Mr. Bean?

Mr. BOUTIN. Our discounts for last year were in excess of $2 million.

Mr. THOMAS. You are certainly in a position to buy for cash.

FINANCING RECEIVABLES

Mr. TURPIN. Mr. Chairman, when we get to receivables we are estimating here financing receivables only for 43 days, that is 30 days billed and 13 days unbilled.

Mr. THOMAS. Okay, 43 days. What is your discount period to your suppliers, Mr. Bean?

Mr. BEAN. I think Mr. Turpin has that information too.

Mr. TURPIN. Most of them are 20 days, sir.

Mr. THOMAS. Why cannot your customers pay in the same period?

Mr. BOUTIN. We really cannot bill it that fast, Mr. Chairman. No matter how much we refine the system, 13 days is just about the minimum, if we are to keep administrative costs down.

Mr. THOMAS. Insert pages 142, 143, and 145 in the record.

(The pages follow:)

General supply fund

1963 appropriation	$13,500,000
Proposed supplemental	30,000,000
Comparative	43,500,000
Change	−8,500,000
1964 estimate	35,000,000

GENERAL STATEMENT

"This fund finances, on a reimbursable basis, a national supply depot system and a system of ordering supplies for direct delivery to agencies. Supplies or services are sold from the fund at cost to other agencies and the District of Columbia. Related operating expenses are provided for under the appropriation 'Operating expenses, Federal Supply Service' (5 U.S.C. 630g).

"Also financed by the fund and reimbursed by the using agencies are operations of interagency motor vehicle pools established in areas of high vehicle density. * * *" (From the budget for 1964.)

This request of $35 million of additional appropriated capital, together with reliance on customer agencies for advances of $30 million is required to provide for the rapidly increasing demands from other Government agencies for goods and services financed through the fund, primarily common-use supplies and motor pool services. If GSA is to meet these demands it is essential that suf-

ficient appropriated capital be provided to insure (1) the minimum inventory necessary to meet the military issue priority system and other agency demands. (2) minimum equipment requirements to meet replacement standards and additional customer requirements, (3) minimum cash to take discounts offered and pay earnings to Treasury, and (4) to finance accounts receivable.

Investment of the U.S. Government in the fund at June 30, 1962, was $145,300,892 of which $129,250,000 represents direct appropriation, $593,733 capitalized surplus, $10,251,943 donated assets, and $5,346,476 retained earnings, with $141,260 deducted for long-term leave liability.

Additional capital of $13.5 million was appropriated in 1963 and a further necessary increase of $30 million is proposed in 1963 as an item for later transmittal to provide sufficient capital to finance increased sales during that year. Donated assets amounting to an estimated $3 million arising from (*a*) inventories transferred from DOD for commodities for which GSA is assuming supply support and (*b*) transfers of motor vehicles from other agencies upon establishment of additional interagency motor pools, will be capitalized in the fund.

Retained earnings, as determined by General Accounting Office audit must be paid to Treasury as miscellaneous receipts. The payment in 1963 amounted to $5,346,476.

APPROPRIATION LANGUAGE

"To increase the general supply fund established by the Federal Property Administrative Services Act of 1949, as amended (5 U.S.C. 630g) [$13,500,000] *$35,000,000.*

JUSTIFICATION

Capital available for 1963 and 1964 must be responsive to the increase in sales volume of $446.9 million in 1962 to $523.0 million in 1963 and $648.9 million in 1964.

The following tabulation reflects the continuous sales increase:

[In millions of dollars]

Type of sale	1962 actual	1963 estimate	1964 estimate
Stores, stock	229.6	267.3	350.0
Transportation	[1] 9.2	10.7	14.0
Total stores stock	238.8	278.0	364.0
Stores direct delivery	34.8	42.0	66.0
Nonstores items	139.2	156.9	166.0
Export packing	10.7	16.5	22.0
Equipment rental	.3	.4	.5
Motor pool	20.9	24.3	25.1
Repair programs	2.2	4.9	5.3
Total	446.9	523.0	648.9

[1] Sales in 1962 have been adjusted for comparability.

It is estimated that $30 million additional appropriated capital (included as a supplemental proposed for later transmittal) will be required in 1963 and $35 million in 1964. This presupposes reliance on advances of $30 million in 1963 and 1964.

There follows a chart indicating the utilization of capital and a comparative statement of capital and financing for the general supply fund.

General Supply Fund

Comparative statement of capital and financing (summary)

[In millions of dollars]

	As of June 30			Change from 1963	Assumptions
	1962 actual	1963 estimate	1964 estimate		
A. FINANCING AVAILABLE					
1. Capital provided by appropriation:					
(a) Start of year	115.7	129.2	172.7	.....	
(b) During year	13.5	13.5	.....	.....	
(c) Additional requirement	.....	30.0	35.0	.....	Minimum appropriated capital required to support total GSF sales program of $523,000,000 in 1963 and $648,900,000 in 1964, detailed on page 143.
(d) Total appropriated	129.2	172.7	207.7	+35.0	
2. Donated assets, cumulative (nonreimbursable transfers of inventory and equipment)	10.8	18.7	21.7	+3.0	Donations of $7,900,000 in 1963 ($5,000,000 DOD inventory, $2,900,000 motor vehicles) and $3,000,000 DOD inventory in 1964).
3. Temporary advances from other agencies to be repaid in 1963	10.0	.....	.....	.....	$10,000,000 from AID must be returned; borrowed pending receipt of 1963 supplemental.
4. Total financing available	150.0	191.4	229.4	+38.0	
B. APPLICATION OF FINANCING					
1. Assets:					
(a) Working cash	15.7	16.3	20.0	+3.7	Minimum cash balance required to insure prompt payments of bills, maintain good relations with industry and take advantage of discounts offered. (Average of $2,000,000 per region.)
(b) Accounts receivable	81.3	81.7	98.1	+13.4	Accounts receivable, net, for 1964 are based on 43 days (30 billed, 13 unbilled) with consideration given to customer agencies for permanent advances. This is a progressive reduction from 51 days in 1962, 44 days in 1963, and is considered the minimum required to support sales levels projected in 1964.
Less advances	−32.9	−30.0	−30.0	.....	$10,000,000 from AID; $10,000,000 from Air Force; $2,000,000 from Navy; $8,000,000 consolidated purchase advance primarily for nonstores items.
Net accounts receivable	48.4	51.7	68.1	+13.4	

(c) Inventories	94.8	120.7	144.4	+23.7	
In depots	88.9	109.7	130.4	+20.7	Depot inventories are based on annual stock turn of approximately 3 times.
Transfer from DOD	.....	5.0	8.0	+3.0	
In transit	5.9	6.0	6.0	.....	
(d) Equipment, net	36.5	42.9	47.9	+5.0	Purchase of equipment at minimum level to meet replacement standards and to provide for additional customer demands for sales of supplies and motor pool services.
(e) Other assets	0.9	0.9	0.9	.....	
(f) Total assets	190.3	232.5	278.3	+45.8	
2. Deduct:					
(a) Accounts payable	34.9	38.0	45.8	+7.8	Accounts payable are based on 20 days, considered to be the maximum level if discounts are to be taken.
(b) Unfunded leave liability	0.1	0.1	0.1	.....	
(c) Retained earnings	5.3	3.0	3.0	.....	Estimated retained earnings are projected at the minimum level and will be deposited to miscellaneous receipts to Treasury.
(d) Total deductions	40.3	41.1	48.9	+7.8	
3. Total financing applied, net	150.0	191.4	229.4	+38.0	

Mr. THOMAS. You have some appropriation language here to increase the general supply fund established by the Federal Property and Administrative Services Act of 1949. You had $13,500,000 last year, you estimate you will need $30 million additional appropriated capital, to be proposed as a supplemental, in 1963, and you want $35 million in 1964.

The capital available for 1963 and 1964 is broken down on page 143.

AUTOMOBILE INVESTMENT

What about your automobiles? What part of your capital assets do you have tied up in automobiles? I have a feeling that the reason you are going up in this capital every year is for automobiles.

How do you amortize the automobiles in your motor pool?

Mr. BOUTIN. Depreciation is based on a 6-year useful life for automobiles.

Mr. THOMAS. For your own motor pool you have two or three figures. One place you set out 10,000 you are going to buy this year and in the table it is around 2,000.

Mr. TURPIN. I will give you the investment in motor vehicles. For 1964 the net is $40.7 million. That was acquisition cost less depreciation.

Mr. THOMAS. Is that for the motor pool?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. You pay for that in 10 days, or 20 days, or 30 days?

Mr. TURPIN. Our objective on paying our vendors is 20 days.

Mr. THOMAS. How long will it take you to amortize those automobiles? That is where some of your increase in capital is going, after all. What will be your investment in automobiles this year?

Mr. TURPIN. $40.7 million is projected for 1964. This year it is $37.9 million.

Mr. THOMAS. Take 1964, $41 million. From your system of bookkeeping, when will you get that back? That all goes in your motor pool under your jurisdiction?

Mr. TURPIN. Yes.

Mr. THOMAS. When will you get it back?

Mr. TURPIN. Our depreciation up to this point has been based on 6-year useful life for automobiles. The depreciation is recorded as a cost each month, and this cost is passed on to the using agency in the rate charged for service.

Mr. THOMAS. So it will take you 6 years to get that $40 million back through the depreciation route?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. And that accounts for that $35 million, does it not?

Mr. TURPIN. No, sir. Could I mention really what we need that additional $35 million for?

Mr. THOMAS. You have $41 million for automobiles.

Mr. TURPIN. That is the cumulative net investment.

Mr. THOMAS. I am asking what will be your additional capital outlay for 1964 for automobiles?

Mr. TURPIN. $2.8 million.

Mr. THOMAS. That is quite different, then. You will amortize that $2.8 million over 6 years.

COMPONENTS OF GENERAL SUPPLY FUND REQUEST

Mr. TURPIN. Yes, sir. But of the $35 million appropriation request it comes out about this way: $20.7 million is for investment in additional inventories in order to handle the new business. Only $13.4 million of the increase is related to the receivables.

Mr. THOMAS. That goes back to your stores stock, then?

Mr. TURPIN. Yes, sir; for inventories. For receivables, it is based on total general supply fund sales.

Mr. THOMAS. A very small portion of it is for automobiles; $2.8 million is for automobiles and what is the increase in stores stock?

Mr. TURPIN. $20.7 million.

Mr. THOMAS. Is it that much?

Mr. TURPIN. That is out of appropriated capital. There is an additional transfer from DOD of $3 million or a total of $23.7 million inventory increase in 1964.

Mr. EVINS. You have taken a depreciation on the automobiles turned over to you?

Mr. BOUTIN. Yes, sir.

DONATED ASSETS

Mr. EVINS. These donated assets you keep the same every year.

Mr. BOUTIN. It is cumulative to date.

Mr. EVINS. I should think they would depreciate.

Mr. TURPIN. They do, sir, but they are recorded initially as an increase in capital, as an asset.

Mr. BOUTIN. We show this as the source of capital.

Mr. TURPIN. The amount capitalized is recovered, though, through depreciation.

Mr. THOMAS. After 6 years it is cash. Is that the way it works?

Mr. TURPIN. Yes, sir.

GENERAL SUPPLY FUND CAPITAL

Mr. THOMAS. This chart on page 144 tells the tale. Let us put that in the record.

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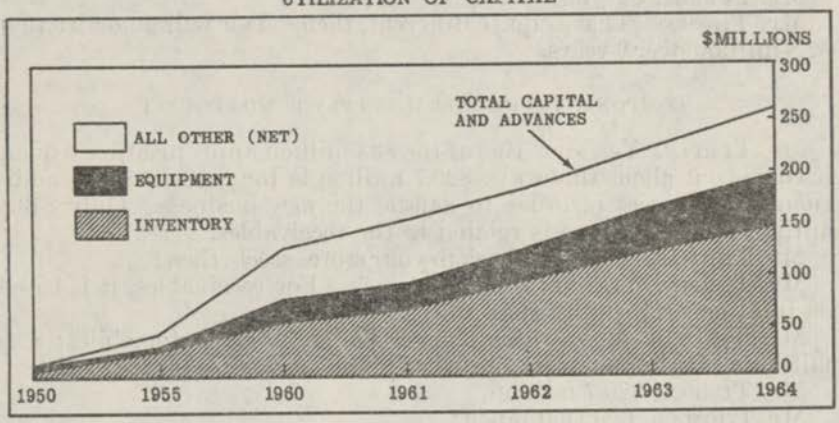
(The page follows:)

GENERAL SUPPLY FUND

UTILIZATION OF CAPITAL



(MILLIONS OF DOLLARS)

FISCAL YEAR	CAPITAL (APPROP. AND DONATED)	ADVANCES END OF YEAR	UTILIZATION OF CAPITAL & ADVANCES				
			INVENTORY	EQUIPMENT	WORKING CASH	RECEIVABLES	PAYABLES ETC.
1950	10.1	—	7.2	0.6	10.9	11.8	-20.4
1955	45.1	0.6	26.7	2.6	4.3	24.1	-12.0
1960	104.1	23.1	55.5	22.2	15.0	56.0	-21.5
1961	125.5	28.8	66.3	26.3	38.5	49.6	-26.4
1962	140.0	42.9	94.8	31.4	15.7	81.3	-40.3
1963	191.4	30.0	120.7	43.8	18.0	81.5	-42.6
1964	229.4	30.0	144.4	48.8	20.0	95.1	-48.9

Capital - Assumes supplemental appropriation of $30m in 1963 and new appropriation of $35m in 1964

Advances- Both permanent and temporary; considered as offset against receivables

Inventory Level - Minimum required to handle sales. Sales projection of $296.4m in 1963; $364.0m in 1964; assumes 3.0 stockturn

Equipment - Primarily for motor pools (23,726 vehicles -1962) and warehouse operating equipment

Receivables - Based on 43 day cycle - 30 days billed and 13 days unbilled; considered delinquent after 30 days.

NEED OF CAPITAL TO REPAY ADVANCES

Mr. THOMAS. The tables on pages 145 and 146 are very interesting but they are too long to put in the record.

Mr. EVINS. Mr. Chairman, they are asking for $30 million in the supplemental appropriation and they show more in accounts payable than they are asking for in the supplemental appropriation.

Mr. TURPIN. That is accounts payable based on our paying bills in 20 days.

Mr. Chairman, you said we are probably in bad shape this year because we do not have the supplemental yet. We are in a bad way and the only way we are able to have enough cash to pay our bills is from getting an additional advance of $10 million from AID, which is a temporary cash advance.

Mr. THOMAS. From AID?

Mr. TURPIN. Yes, sir, which we are committed to repay just as soon as we are able to do so.

Mr. THOMAS. Why did you get an advance from them?

Mr. TURPIN. Well, we do quite a bit of business with them and we are really in a predicament to handle the business with the capital that we have.

PROCUREMENT AND PROPERTY REHABILITATION FOR AID

Mr. THOMAS. How much business do you do with AID?

Mr. TURPIN. Will you give me the total figure, Mr. Bean?

Mr. THOMAS. What is the nature of the business you do with AID?

Mr. TURPIN. We procure items in this country for shipment overseas and also the rehabilitation program.

Mr. THOMAS. Which is larger?

Mr. BOUTIN. $50.7 million is what we will do with them this year and on the excess property there is a limitation at acquisition cost of $45 million.

Mr. THOMAS. What is that again?

Mr. BOUTIN. We are going to do $50.7 million of business with them this year but on the excess there is a limitation of $45 million at acquisition. So the rehabilitation of that $45 million in acquisition would not be close to the cost for rehabilitation.

Mr. THOMAS. I think I have a figure in mind that your entire rehabilitation is less than $1 million for them, $900,000, something like that?

Mr. BOUTIN. Mr. Barron, what will you do for them this year?

Mr. THOMAS. 97 or 98 percent is for procurement of new merchandise to be shipped overseas. Your rehabilitation is less than $1 million?

Mr. BOUTIN. What is the total rehabilitation for AID expected to be in 1963?

Mr. BARRON. $6.2 million for first half, an estimated $15 million for the year at acquisition cost.

Mr. THOMAS. I am not talking about acquisition cost, your expense in handling the rehabilitation of merchandise you let them have?

Mr. BARRON. It is estimated at $204,000 in fiscal year 1963.

Mr. THOMAS. What is the rehabilitation cost on repair facilities for AID?

Mr. BARRON. At Cheli the operating cost for fiscal 1962 was just over $42,000.

Mr. THOMAS. What is it for 1964?

Mr. BARRON. We are planning on a projection of doubling the current 1963 volume, sir.

Mr. THOMAS. What would that be?

Mr. BARRON. $64,000 if our projections are correct.

UTILIZATION AND DISPOSAL SERVICE, GENERAL SERVICES ADMINISTRATION

WITNESSES

BERNARD L. BOUTIN, ADMINISTRATOR
WILLIAM P. TURPIN, ASSISTANT ADMINISTRATOR FOR FINANCE AND ADMINISTRATION
JOE E. MOODY, GENERAL COUNSEL
PAUL A. BARRON, COMMISSIONER
WALTER C. MORELAND, ASSISTANT COMMISSIONER FOR REAL PROPERTY
CURTIS A. ROOS, ASSISTANT COMMISSIONER FOR PERSONAL PROPERTY

OPERATING EXPENSES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	3,960	4,665	5,193
	Positions other than permanent	28	13	12
	Other personnel compensation	21	16	56
	Total personnel compensation	4,009	4,694	5,261
12	Personnel benefits	296	349	395
21	Travel and transportation of persons	198	345	345
	Payment to interagency motor pools	67	70	72
22	Transportation of things	7	3	3
23	Rent, communications, and utilities	205	211	221
24	Printing and reproduction	230	240	264
25	Other services	1,853	2,020	2,098
	Payment to administrative operations fund	788	861	964
	Services of other agencies	15	18	18
26	Supplies and materials	62	65	71
31	Equipment	31	9	15
41	Grants, subsidies, and contributions	65	273	273
	Total obligations	8,026	9,140	10,000

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	617	656	699
Full-time equivalent of other positions	7	3	3
Average number of all employees	563	632	669
Number of employees at end of year	588	648	685
Average GS grade	8.2	8.3	8.3
Average GS salary	$7,139	$7,624	$7,665
Average salary of ungraded positions	$4,821	$4,821	$4,821

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Real property	3,400	3,873	4,143
2. Personal property	3,427	3,893	4,386
3. Service direction	398	482	507
4. Administrative operations	788	861	964
Total program costs, funded [1]	8,013	9,109	10,000
Change in selected resources [2]	13	31	
Total obligations	8,026	9,140	10,000
Financing:			
Unobligated balance lapsing	207		
New obligational authority	8,233	9,140	10,000
New obligational authority:			
Appropriation		8,500	10,000
Transferred (5 U.S.C. 630d) from—			
"Operating expenses, Public Buildings Service"	4,443		
"Operating expenses, Federal Supply Service"	3,958	370	
Transferred to "Expenses, supply distribution" (75 Stat. 353) (−)	−168		
Appropriation (adjusted):			
General fund	4,298	370	
Special fund	3,935	8,500	10,000
Proposed supplemental due to pay increases (special fund)		270	

[1] Includes capital outlay as follows: 1962, $31,000; 1963, $8,000; 1964, $36,000.
[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $22,000; (1962 adjustment, $2,000); 1962, $37,000; 1963, $68,000; 1964, $68,000.

Mr. THOMAS. Let us take a look at utilization and disposal service.

FUNCTIONS OF THE SERVICE

Put page 159 in the record.
(The page follows:)

FUNCTIONS PERFORMED BY THE UTILIZATION AND DISPOSAL SERVICE

This service performs all functions of GSA with respect to the utilization of excess and disposal of surplus real and personal property, and the rehabilitation of personal property.

Basic operations are financed from two sources: (1) an annual appropriation, to be derived from proceeds of sales, for all force account activities and (2) a permanent authorization, also funded from proceeds of disposals for certain real property activities carried out under contractual arrangements, including services of appraisers, brokers, and auctioneers.

In addition, GSA operates on a reimbursable basis, on behalf of the Agency for International Development, a small minor-repair facility at former Cheli Air Force Base near Los Angeles, Calif. Selected items of excess property, generally vehicular or electrical, destined for use in the foreign aid program, are checked for operability, minor repairs are made, the items are painted, where necessary, and are then readied for overseas shipment. During the past year property originally acquired at a cost of $0.8 million was processed.

FUNCTIONS PERFORMED BY UTILIZATION AND DISPOSAL SERVICE

Mr. THOMAS. This is well worth reading:

This service performs all functions of GSA with respect to the utilization of excess and disposal of surplus real and personal property, and the rehabilitation of personal property.

Basic operations are financed from two sources: (1) an annual appropriation, to be derived from proceeds of sales, for all force account activities—

Maybe we had better look at that language again when we review it—

and (2) a permanent authorization, also funded from proceeds of disposals for certain real property activities carried out under contractual arrangements, including services of appraisers, brokers, and auctioneers.

In addition, GSA operates on a reimbursable basis, on behalf of the Agency for International Development, a small minor-repair facility at former Cheli Air Force Base near Los Angeles, Calif. Selected items of excess property, generally vehicular or electrical, destined for use in the foreign aid program, are checked for operability, minor repairs are made, the items are painted, where necessary, and are then readied for oversea shipment. During the past year property originally acquired at a cost of $0.8 million was processed.

You have an administrative cost of $420,000 taking care of that material that originally cost $800,000?

Mr. BOUTIN. The total labor cost was $33,115, material and overhead $9,272 in fiscal 1962, a total of $42,387.

Mr. THOMAS. The acquisition cost was $800,000?

Mr. BOUTIN. Yes, sir.

NEW OBLIGATION AUTHORITY AND AVERAGE EMPLOYMENT

Mr. THOMAS. Put the tables on page 160 and 161 in the record along with the general statement on page 162.

(The material referred to follows:)

UTILIZATION AND DISPOSAL SERVICE

Summary of new obligational authority and average employment

	New obligational authority		Average employment					
			Total		Central office		Field	
	1963	1964	1963	1964	1963	1964	1963	1964
A. NEW OBLIGATIONAL AUTHORITY AND RELATED EMPLOYMENT								
Operating expenses, "Utilization and disposal service":								
1. Real property	$3,887,600	$4,143,000	164.6	173.6	38.6	38.6	126.0	135.0
2. Personal property	3,904,500	4,385,700	417.4	445.5	61.2	61.2	356.2	384.3
3. Service direction	486,900	507,300	49.6	49.9	22.1	22.0	27.5	27.9
4. Administrative operations	861,000	964,000	-------	-------	-------	-------	-------	-------
Total NOA, subtotal employment	9,140,000	10,000,000	631.6	669.0	121.9	121.8	509.7	547.2
B. OTHER EMPLOYMENT								
Revolving fund: General supply fund [1]	(2)	(2)	35.4	36.2	0	0	35.4	36.2
Total employment, "Utilization and disposal service"	-------	-------	667.0	705.2	121.9	121.8	545.1	583.4

[1] Represents employment involved in the property rehabilitation function, directly financed by GSA, and organizationally responsible to the utilization and disposal service.
[2] Funds available not considered new obligational authority in budget schedules.

Summary reconciliation of 1964 estimate to comparable amounts for 1963

1963 appropriation in annual act	$8,500,000
Proposed supplemental due to pay increase	270,000
Transfer from "Operating expenses, FSS"	370,000
Comparative total for 1963	9,140,000
Increase in 1964:	
Real property workload arising from phasing out military installations	172,400
Protection and maintenance for new accessions of complex high-value properties pending disposal	83,000
Further expansion of the utilization screening process estimated to increase by $35 million the volume of personal property put to further Federal use	200,500
Operation of the sales function of all civil agencies assumed by GSA on a phased basis beginning late in 1961	130,000
Rehabilitation of greater volume of personal property, including in-use and GSA-acquired excess, and under the AID program	150,700
Service direction	20,400
Administrative operations	103,000
1964 estimate	10,000,000

Analysis by activities

Activities	1963	Increases	1964 estimate
1. Real property	$3,887,600	$255,400	$4,143,000
2. Personal property	3,904,500	481,200	4,385,700
3. Service direction	486,900	20,400	507,300
4. Administrative operations	861,000	103,000	964,000
Total	9,140,000	860,000	10,000,000

1963 appropriation	$8,500,000
Transfer	370,000
Pay act supplemental	270,000
1963 Comparative	9,140,000
Change	860,000
1964 estimate	10,000,000

GENERAL STATEMENT

"This appropriation, derived from proceeds from the transfer of excess property and the disposal of surplus property, provides for all utilization and disposal functions of the General Services Administration with resect to excess and suplus real and personal property and the rehabilitation of personal property to be performed by the 'Utilization and disposal service,' except fees of auctioneers, brokers, etc., which are financed through a special account.

"Increases for 1964 provide for further emphasis on reuse or prompt disposal of existing real and personal property to obviate new capital and procurement outlays. Income from disposal activities in 1962 was $72.2 million, and is estimated to increase to $80.5 million in 1963, and $87 million in 1964.

"Fair value of personal property received from other appropriations or funds without cost for use by GSA is as follows: 1962, $12,000, 1963, $14,000; and 1964, $9,000." (From the budget for 1964.)

The estimate for 1964 includes $526,000 for increased pay costs as a result of the Federal Salary Reform Act of 1962. The total estimate of $10,000,000 represents an increase of $860,000 over 1963 financing, including $255,400 for real property activities, $481,200 for personal property activities, and $123,400 for service direction and administrative operations. A consolidated summary of workload, costs, and proceeds relating to this appropriation is shown on the following page.

APPROPRIATION LANGUAGE

"For necessary expenses, not otherwise provided for, incident to the utilization and disposal of excess and surplus property, *and rehabilitation of personal property*, as authorized by law, [$8,500,000] *$10,000,000*, to be derived from proceeds from the transfer of excess property and the disposal of surplus property."

Addition of the phrase "and rehabilitation of personal property" is to clarify and restate the authority transferred from Federal Supply Service to the Utilization and Disposal Service to rehabilitate personal property, including in-use as well as excess and surplus personal property. Included in the total request are funds for administrative expenses of personal supervising the rehabilitation program.

Mr. THOMAS. This is a good breakdown for 1963 and 1964, along with the employment.

Real property goes from $3.8 to $4.1 million; personal property goes from $3.9 to $4.3 million; service direction goes from $486,000 to $507,000; administrative operations goes from $861,000 to $964,000. The total for 1963 is $9,140,000 against $10 million this year.

Here are your jobs on the opposite side. For this year you have a total of 631, that is for 1963, against 669 for 1964.

You set out funds available not considered new obligational authority in budget schedules. And you show total employment for 1963, 667, against 705 for 1964.

The revolving fund under the General Supply Fund represents employment involved in the property rehabilitation function, directly financed by GSA, and organizationally responsible to the Utilization and Disposal Service.

EFFECT OF REORGANIZATION

How old is this new setup now?

Mr. BOUTIN. This is just about a year and a half old.

Mr. THOMAS. Is it working any better than the old setup?

Mr. BOUTIN. 1,000 percent better, Mr. Chairman, in the dollar income and improvement in utilization.

Mr. THOMAS. What did you add in your new setup you did not have before?

Mr. BOUTIN. We reorganized so that all this process of screening and handling real property and related personal property was brought together.

Mr. THOMAS. You have real property, personal property, and what else? Then you have service direction charged right to it?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. And you put your automobiles in the transportation service. Where were they before?

Mr. BOUTIN. Federal supply.

Mr. THOMAS. You took them from Federal Supply and put them under transportation?

Mr. BOUTIN. Yes.

Mr. THOMAS. So Federal Supply has been decreasing rather than increasing?

Mr. BOUTIN. As to that type of activity, that is true. Dollarwise, they are up.

Mr. THOMAS. What does that do to Federal Supply?

Mr. BOUTIN. It has gotten them out of the utilization and sales of personal property; it has gotten them out of rehabilitation; it has gotten them out of the motor pool; and it has gotten them out of the emergency stockpile activity for DHEW and DOD.

Mr. THOMAS. So what you did was cut Federal Supply about in half and made a new unit, Utilization and Disposal Service?

Mr. BOUTIN. We took utilization and disposal of personal property from Federal Supply but we took utilization and disposal of real property from Public Buildings.

Mr. THOMAS. Who is the distinguished gentleman who had that before?

Mr. BOUTIN. Mr. Moody.

Mr. THOMAS. You made a chief counsel out of him. You took him out of the real estate business and made a chief counsel out of him overnight.

Mr. BOUTIN. A good one, too.

Mr. THOMAS. How is that reorganization working out, Mr. Administrator?

Mr. BOUTIN. It is working out, I think, especially well. One of the problems we had before, for example, if we had a surplus plant Federal Supply was looking after the personal property and Public Buildings the real property. Now both are seen through one set of eyes and we think it is an improvement.

Mr. THOMAS. The cost has gone up and that is all I know I can go by. Here is another internal reorganization and the cost goes up. Is that not the ultimate test?

Mr. BOUTIN. No, I would say you have to measure it against the direct cash income to the Treasury and the indirect income to the Treasury through better utilization, which means somebody is not going out and buying something.

Mr. THOMAS. In 1963 the cost was $9,140,000. For 1964 it is $10 million. So there is an increase of $860,000.

Does your schedule for 1963 include all the activities included for 1964?

Mr. BOUTIN. Yes, it does.

Mr. THOMAS. Where is the saving?

Mr. BOUTIN. Increased utilization and increased sales. Part of the cost is the pay act cost which we would have been subject to anyway, and the increased cost is due to the increase in properties turned over to us by other agencies.

TRANSFER OF PROPERTY REHABILITATION FUNCTION

Mr. THOMAS. There is a very good table on page 161. You have an item of $370,000 "Transfer from operating expenses, Federal Supply Service." Which items do you transfer? Who got it?

Mr. BARRON. This is property rehabilitation which was transferred from Federal Supply to Utilization and Disposal Service.

Mr. BOUTIN. That was in Federal Supply before and we brought it into the Utilization and Disposal Service.

Mr. THOMAS. This $370,000 is not all rehabilitation?

Mr. BARRON. This $370,000 transfer representing property rehabilitation was accomplished in 1963 and therefore it appears in this reconciliation.

Mr. THOMAS. Where is it in 1964?

Mr. BARRON. That is the rehabilitation subactivity cost for 1964.

INCREASES IN 1964

Mr. THOMAS. Let us look at 1964. You show "Real property workload increases arising from phasing out military installation, $172,400."

Did you incur that cost by virtue of your new authority? In the new Executive order you got jurisdiction over some military property you did not have before?

Mr. BOUTIN. No, sir. The only thing the order did is that for military installations, which are off military reservations, we have the right and authority to prescribe the utilization.

Mr. THOMAS. You always had that authority, but under the new order you have authority to rehabilitate and reassign it?

Mr. BOUTIN. The minute it comes in our inventory the rehabilitation was vested in GSA.

Mr. THOMAS. What I have in mind is this: Say the Army transfers to you a building. Do the other agencies have an opportunity to come in and claim a part of it?

Mr. BOUTIN. They always did.

Mr. THOMAS. The new order did not change that?

Mr. BOUTIN. It did not change it at all.

Mr. THOMAS. "Protection and maintenance for new accessions of complex high-value properites pending disposal, $83,000." This is your increase.

"Further expansion of the utilization screening process estimated to increase by $35 million the volume of personal property put to further Federal use, $200,500."

"Operation of the sales function of all civil agencies assumed by GSA on a phased basis beginning late in 1961, $130,000."

"Rehabilitation of greater volume of personal property, including in-use and GSA-acquired excess, and under the AID program, $150,700."

Is this all by contract?

Mr. BARRON. No, sir: it is not. Part of it is through the Army. Most of it is through the Army and some through Federal prisons and GSA Force Account, or by contract.

Mr. THOMAS. Then you have an increase in "Service direction" of $20,400; and an increase in "Administrative operations" of $103,000. That makes up the difference between the $9,140,000 and $10 million.

You show an analysis by activities. Real property shows an increase of $255,400, making a total of $4,143,000 for 1964; personal property shows an increase of $481,200, making a total of $4,385,700; service direction shows an increase of $20,400, making a total of $507,300; and administrative operations shows an increase of $103,000, making a total of $964,000. So that balances out the $860,000 difference.

INCREASED PAY COSTS

You say the estimate for 1964 includes $526,000 for increased pay costs. Now you are looking for a supplemental for pay costs of $270,000. Does that mean you absorbed the difference between $526,000 and $270,000?

Mr. TURPIN. No, sir. The total cost was $275,000 for the pay increase. We are absorbing $5,000 of that for 1963.

Mr. THOMAS. I am talking about 1964. You do not have a supplemental for 1964 but you have one for $270,000 for 1963?

Mr. TURPIN. Yes.

Mr. THOMAS. What did you absorb in 1963?

Mr. TURPIN. $5,000.

Mr. THOMAS. Out of a total cost of $275,000?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. You did not work at it very hard, did you? You are not absorbing any for 1964?

Mr. TURPIN. Only to the extent that there is greater productivity for the employees there, but the amount of the 1964 appropriation that will go for the pay increase is $526,000.

Mr. THOMAS. The answer to my question is "No, not one penny." Off the record.

(Discussion off the record.)

APPROPRIATION ESTIMATE AND LANGUAGE

Mr. THOMAS (reading):

The total estimate of $10 million represents an increase of $860,000 over 1963 financing, including $255,400 for real property activities, $481,200 for personal property activities, and $123,400 for service direction and administrative operations.

What about this appropriation language, gentlemen?

For necessary expenses, not otherwise provided for, incident to the utilization and disposal of excess and surplus property—

That language includes just what it says? That is personal and real property?

Mr. BOUTIN. Both, yes.

Mr. THOMAS (continuing reading):

and rehabilitation of personal property, as authorized by law, $10 million, to be derived from proceeds from the transfer of excess property and the disposal of surplus property.

What part of that is appropriated funds?

Mr. TURPIN. The total amount of $10 million is appropriated but, according to the language, it is appropriated from proceeds rather than from the general fund of the Treasury.

Mr. THOMAS. Instead of the $10 million going to the Treasury, it will be used for administrative expenses?

Mr. TURPIN. Yes, sir; from an appropriation from proceeds deposited with Treasury.

Mr. THOMAS. What is to be gained by that?

Mr. BOUTIN. The source doesn't make much difference. Either it is a direct appropriation or it comes from income. The end result will be precisely the same. The request we are making is the inclusion of the words "and rehabilitation of personal property."

INCOME FROM OPERATIONS

Mr. THOMAS. Let us turn to that table on page 163 and put it in the record.

(The table follows:)

Utilization and disposal of real and personal property workload, costs, and proceeds

	1961		1962		1963		1964	
	Number of real properties	Acquisition cost	Number of real properties	Acquisition cost	Number of real properties	Acquisition cost	Number of real properties	Acquisition cost
OPERATING EXPENSES, UDS								
Utilization transfers:		*Millions*		*Millions*		*Millions*		*Millions*
Real property	122	$87.0	99	$97.0	140	$130.0	145	$140.0
Personal property		310.1		362.7		400.0		435.0
Total		397.1		459.7		530.0		575.0
Sales:								
Real property	275	413.0	260	442.0	375	550.0	385	600.0
Personal property		24.4		39.8		56.0		56.0
Total		437.4		481.8		606.0		656.0
Donations:								
Real property	203	143.0	236	191.0	260	215.0	270	225.0
Personal property		387.7		350.7		450.0		450.0
Total		530.7		541.7		665.0		675.0
Rehabilitation (personal property)		13.4		21.0		28.5		70.0
Costs:								
Real property (includes utilization, sales, donation, protection and maintenance, and payments in lieu of taxes)		*Amount* $3,259,760		*Amount* $3,403,474		*Amount* $3,887,600		*Amount* $4,143,000
Personal property (includes utilization, sales, donations, and rehabilitation)		2,915,604		3,423,835		3,904,500		4,385,700
Service direction				410,486		486,900		507,300
Administrative operations		641,700		788,300		861,000		964,000
Subtotal		6,817,064		8,026,095		9,140,000		10,000,000
Expenses, disposal of surplus real and related personal property		1,229,196		1,209,224		2,200,000		2,200,000
Total		8,046,260		9,235,319		11,340,000		12,200,000

Proceeds:								
Selling price: [1]								
Real property		71,607,605		78,901,300		85,000,000		100,400,000
Personal property		4,100,000		6,400,000		12,500,000		14,000,000
Total		75,707,605		85,301,300		97,500,000		114,400,000
Income:								
Real property		57,182,286		65,811,097		68,000,000		73,000,000
Personal property		4,100,000		6,400,000		12,500,000		14,000,000
Total		61,282,286		72,211,097		80,500,000		87,000,000

[1] Difference between income and selling price is attributable to deferred payment sales of real property.

NOTE.—In order to reduce administrative costs, detailed records accounting for individual numbers of personal properties utilized, sold, donated, or rehabilitated were not maintained. All records are based on acquisition costs as reflected above.

Mr. THOMAS. How much did we put in the Treasury over and above operating costs from personal property and how much from real property?

Mr. BOUTIN. In fiscal 1962, Mr. Chairman, we returned to the Treasury, either in cash or in receivables—because some of the sales were on credit—about $85 million; about $79 million from real property and $6 million from personal property.

For fiscal 1964 we are anticipating proceeds of $100.4 million from real property——

Mr. THOMAS. Wait a minute. Show it on the chart. It shows the transfers for 1961, 1962, 1963, and 1964 at the top. At the bottom you have income.

Mr. BOUTIN. That is the part I was on, proceeds.

Mr. THOMAS. You show real property income, 1961, $57.2 million and personal property $4.1 million. What was the acquisition cost?

Mr. BARRON. $437.4 million.

UTILIZATION TRANSFERS

Mr. THOMAS. Under utilization transfers you show for acquisition cost of real property in 1964, $140 million, and acquisition cost of personal property $435 million, a total of $575 million. You set up the number of real properties as 145, and your personal property would run up to what? No telling?

Mr. BARRON. No telling.

DONATIONS

Mr. THOMAS. Your donations always intrigue me. Look at that. Real property $225 million, personal property $450 million, making a total of $675 million. That goes to nonprofit organizations such as religious and charitable institutions, either a State or private institution so long as it is a nonprofit public institution?

Mr. BOUTIN. They have to qualify under standards set by DHEW. Some of this is airport property under FAA authority and some is civil defense for the personal property.

INCOME FROM REAL PROPERTY SALES

Mr. THOMAS. Let us take a look at the income. That is the interesting part. You have real property for this year of $57.2 million and the acquisition cost was $413 million.

Mr. TURPIN. Mr. Chairman, regarding those bottom two lines, the reason we have two of them, the selling price is related to the acquisition cost. The bottom line, income, is what was actually taken into the Treasury that year. Occasionally property will be sold on credit and paid out over several years, particularly in real estate.

Mr. BOUTIN. We sell a lot on credit.

Mr. THOMAS. So these figures mean in 1964——

Mr. TURPIN. There will be proceeds from real property of $100,400,000. That is the selling price.

Mr. BOUTIN. The rest of it would be on credit.

Mr. EVINS. Is the balance covered by an interest-bearing note?

Mr. BOUTIN. Yes, 5 percent.

Mr. THOMAS. What will you take in by way of income from real property in 1964? Your acquisition cost was $600 million.

Mr. BOUTIN. Of the $114,400,000 selling price combining real and personal property, we will collect $87 million and we will have mortgages of $27.4 million; against an acquisition cost of $656 million.

Mr. THOMAS. You will sell this year $100 million of real property? You think you will get that much for it?

Mr. BOUTIN. Yes.

Mr. THOMAS. What did it cost you?

Mr. BOUTIN. $600 million, the original investment.

Mr. EVINS. You carry the original investment price on your books?

Mr. BOUTIN. The acquisition cost.

INCOME FROM PERSONAL PROPERTY

Mr. THOMAS. And from your personal property you think you will get $14 million and the cost of that was how much?

Mr. BOUTIN. $56 million.

Mr. THOMAS. Let us see what you did in 1963.

Mr. BOUTIN. 1963 are estimated figures but on acquisition cost of real estate of $550 million and on personal property of $56 million, totaling $606 million, we anticipate proceeds of $85 million from real estate and $12,500,000 from personal property, totaling $97,500,000 with $17 million being on credit and cash for the balance.

Mr. THOMAS. You have a completed year; that is 1962.

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. That shows you will double your income from proceeds from personal property a little better than 100 percent, from $6.4 million to $14 million?

Mr. BOUTIN. Yes.

Mr. THOMAS. But your giveaway figure still remains the big one.

Mr. BOUTIN. And the utilization figure is going up all the time, which is a direct saving.

Mr. EVINS. Are the acquisition figures the exact figures it cost the U.S. Government for the properties acquired?

Mr. BOUTIN. As near exact as we can get them.

UTILIZATION TRANSFERS

Mr. THOMAS. Explain your utilization transfers, real and personal property. They are big figures, $140 million for real property and $435 million for personal property. You show no income whatsoever on that and that is big money. Where is the saving?

Mr. BOUTIN. The saving, Mr. Chairman, is that these, particularly personal property, are items that the agencies and departments would have purchased new if they had not been transferred.

Mr. THOMAS. Utilization applies only to transfers within the Federal Government?

Mr. BOUTIN. Yes.

Mr. THOMAS. It has nothing to do with transfers to public or private nonprofit organizations?

Mr. BOUTIN. That is right.

Mr. THOMAS. And your big increase is in your utilization and not in your sales, either personal or realty.

What was your utilization in 1961 in personal property?

Mr. BOUTIN. $310.1 million in personal property.

Mr. THOMAS. What did that property cost you?

Mr. BOUTIN. That is at acquisition cost.

Mr. THOMAS. What is it for 1962?

Mr. BOUTIN. $362.7 million. It is up to $400 million in 1963 and projected at $435 million in 1964.

Mr. THOMAS. It goes up a little less than 10 percent.

Mr. BOUTIN. One of the best customers, Mr. Chairman, as the years go by, for the real property will be GSA itself. Wherever one of the properties is turned over as excess to the needs of an agency, we look it over to see if we can rehabilitate it for our use instead of leasing.

Mr. OSTERTAG. Do you mean for use by GSA or some other agency?

Mr. BOUTIN. Use by GSA or for use by another agency.

LEGALITY OF DONATIONS

Mr. THOMAS. I received a letter from a distinguished constituent of mine who is a Ph. D. and he raised a very unique point. He said it was unconstitutional for GSA to give away the taxpayers' property.

Mr. EVINS. You will have to refer that to Mr. Moody.

Mr. THOMAS. Off the record.

(Discussion off the record.)

Mr. THOMAS. Are you violating the Constitution, Judge Moody?

Mr. MOODY. Not in my opinion, Mr. Chairman. I do not think there is any question about the constitutionality of this law.

Mr. THOMAS. Has it ever been raised? Have the courts ever passed on it?

Mr. MOODY. To my knowledge it has never been tested in court.

Mr. THOMAS. Here it is, A, B, and C John Public are paying money every year to buy this property and next year you turn around and give it to C, D, and E. Does my constituent have a point?

Mr. MOODY. I do not think he has a point, but it has never been tested in court.

Mr. BOUTIN. And it has been going on a long time.

Mr. MOODY. Under this act since 1949.

Mr. BOUTIN. And we had a prior act in 1944.

ACQUISITIONS OF PROPERTY

Mr. OSTERTAG. Does not the whole picture of the tremendous amount of property, both real and personal, that you find yourselves involved in the disposal or utilization of indicate a rather loose and carefree acquisition in the first place?

Mr. BOUTIN. No; I do not think it does, Mr. Congressman, particularly in the real estate. Most of the real properties we get have been used by the Federal Government for many, many years. Some of the pieces of property go back to World War I and before, some from the Civil War. These are nice ones, by the way, to figure the investment on.

Personal property changes all the time. A lot of it is scrap. Airplanes are scrap where you dispose of just metal or parts.

Mr. OSTERTAG. I am not criticizing GSA because you are merely the agency responsible for disposals, but I mean the development of so much excess property which requires disposal indicates purchases were made that were in excess of the needs.

Mr. EVINS. In the wartime they had need for it.

REAL PROPERTY

Mr. THOMAS. We will put pages 164 and 165 in the record.

(The pages follow:)

1. Real property

	Amount	Average employment		
		Departmental	Field	Total
1963	$3,887,600	38.6	126	164.6
Change	+255,400		+9	+9.0
1964	4,143,000	38.6	135	173.6

HIGHLIGHT

"This activity provides for (*a*) utilization of excess and disposal of surplus real property, including national industrial reserve properties; (*b*) protection and maintenance of excess, surplus, and national industrial reserve properties; and (*c*) payments in lieu of taxes on certain properties as required by law. The increase for 1964 is directly related to the current program of phasing out various military installations over a period of years and provides for utilization transfers of 145 properties in 1964 as compared to 140 in 1963, and sale of 385 surplus properties in 1964 as compared to 375 in 1963." (From the budget for 1964.)

Justification of the activity is made under three subactivities summarized below:

Summary of performance cost

	1962	1963	1964
(*a*) Utilization and disposal	$1,367,662	$1,697,300	$1,869,700
(*b*) Protection and maintenance	1,771,094	1,917,000	2,000,000
(*c*) Payments in lieu of taxes	264,718	273,300	273,300
Total cost or estimate	3,403,474	3,887,600	4,143,000

JUSTIFICATION

A consolidated summary of the real property activity financing, workload, and proceeds is shown on exihibit A, page 167.

(*a*) *Utilization and disposal.*—As indicated on exhibit A, the ending inventory of surplus real properties, June 30, 1964, is estimated at 248 properties costing $850 million, compared to 250 properties costing $800 million estimated for June 30, 1963, and ending inventory June 30, 1962, of 256 properties costing $765 milion.

The foregoing shows a trend of reduction in the number of properties in inventory while the volume measured in terms of acquisition cost is continuing to rise. The excess and surplus real property inventory is becoming heavily weighted with a relatively small number of high-cost industrial complexes, as illustrated by the fact that as of June 30, 1962, only 71 industrial properties were in inventory costing $788 million whereas we had 344 nonindustrial properties costing $385 million.

Total cost or estimate:

1962	$1,367,662
1963	1,697,300
1964	1,869,700

The increase for 1964 is directly related to the utilization or disposal of these industrial properties now in inventory, and to the current DOD program of phasing out various high-cost facilities over a period of years. It provides full-year financing for staff recruited in 1963 and for three realty officers and one clerk in field offices to provide sufficient support to attain the accelerated 1964 utilization and disposal program.

(*b*) *Protection and maintenance.*—Provides for the physical care, handling, protection, maintenance, and repairs of certain properties pending disposal.

Total cost or estimate:

1962	$1,771,094
1963	1,917,000
1964	2,000,000

The estimated number of properties for which protection and maintenance is provided will decline from 67 in 1963 to 63 in 1964. The 1964 estimate, however, includes several new accessions of high-value instalations involving substantial protection and maintenance.

Exhibit B, page 168, shows the protection and maintenance costs for reserve and surplus properties.

(*c*) *Payments in lieu of taxes.*—Provides for payments in lieu of taxes at the 1963 rate on certain properties as required by the act of Congress approved August 12, 1955 (69 Stat. 722), as amended (40 U.S.C. 523).

Total cost or estimate:

1962	$264,718
1963	273,300
1964	273,300

Exhibit C, page 172, lists the properties on which payments are made.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $1,500,800 for 178 positions distributed as follows:

	1962	1963	1964
Central office	40	40	40
Regional offices	121	134	138
Total positions	161	174	178
Average employment	143.1	164.6	173.6

Other objects: $2,642,200, provides:

(1) $112,600 personnel benefits, including $97,600 retirement contributions, $9,500 health benefits and $5,500 group insurance.

(2) $2,021,600 other services, including $2,000,000 for protection and maintenance of excess, surplus and reserve real properties; $9,000 to the Department of the Interior for investigations in connection with the conveying of real property for park, recreational and historic monument purposes; $12,600 for contractual services.

(3) $273,300 for payments in lieu of taxes.

The remainder of $234,700, or 5.7 percent of total estimate, includes:

(4) $90,000 for 3,333 days travel at $27 per day; $15,900 for motor pool services.

(5) $3,200 for transportation of things; $44,400 communications including $10,000 for postage fees.

(6) $42,300 printing; $28,800 supplies; $10,100 equipment.

Mr. THOMAS. Let us look at the table in the middle of page 164. This deals with real property. You show a summary of performance cost for 3 years, 1962, 1963, and 1964. That is broken down into utili-

zation and disposal, protection and maintenance, and payments in lieu of taxes.

Your utilization and disposal cost is $1,869,700 for 1964 against $1,697,300 in 1963.

For protection and maintenance you have a cost of $2 million in 1964 against $1,917,000 in 1963.

Your payments in lieu of taxes are the same in 1963 and 1964, $273,300.

Mr. OSTERTAG. Does that reflect the payments made in lieu of taxes on all Federal property?

Mr. BOUTIN. This is the total amount of payments that we, by authority of Congress, make in lieu of taxes on certain properties we handle.

Mr. THOMAS. RFC properties.

You show no cost on personal property. Why is that?

Mr. BOUTIN. It is under the next section, Mr. Chairman.

Mr. THOMAS. Here it is.

PERSONAL PROPERTY

Put page 174 on personal property in the record. Also include 176 and 177.

(The pages follow:)

2. Personal property

	Amount	Average employment		
		Department	Field	Total
1963	$3,904,500	61.2	356.2	417.4
Change	+481,200		+28.1	+28.1
1964	4,385,700	61.2	384.3	445.5

HIGHLIGHT

"This activity provides for (a) utilization of usable excess personal property, thereby obviating new purchases; (b) sale of surplus personal property; and (c) rehabilitation of personal property. The increase for 1964 provides for screening of excess inventories held by contractors with the Department of Defense and extending sales responsibility to cover the remaining civil agencies not now served. Utilization transfers at acquisition cost were $362.7 million in 1962 and are estimated at $400 million in 1963 and $435 million in 1964. Proceeds from sale of surplus personal property were $6.4 million in 1962 and are programed at $12.5 million in 1963 and $14 million in 1964." (From the budget for 1964.)

Justification of the activity is made under three subactivities summarized below:

Summary of performance cost

	1962	1963	1964
(a) Utilization and donation	$2,182,250	$2,450,000	$2,650,500
(b) Sales	949,188	1,067,700	1,197,700
(c) Rehabilitation	292,397	386,800	537,500
Total cost or estimate	3,423,835	3,904,500	4,385,700

JUSTIFICATION

(a) *Utilization and donation.*—The volume of personal property being generated excess by owning agencies declined from $6.6 billion in 1960 to $2.8 billion in 1962. In 1964, we expect to screen for further Federal use about $2 billion out of the total volume, $1 billion of which should have good potential for further Federal use and, therefore, will be fully screened under our documentation system. The additional $1 billion, estimated to have a more limited use potential, will be screened by physically reviewing owning agency records of excess property not required to be reported to GSA for screening through the regular documentation process.

In 1964, we expect the total volume of personal property put to further Federal use through GSA efforts to reach $435 million (21.8 percent of the total screened), compared to $400 million (20 percent of the total screened) in 1963. The 1964 program provides for continued utilization screening on behalf of all Federal agencies as well as continued interservice and civil agency screening of DOD property (1) having line item values of less than $3,000; (2) proposed for disposal under exchange/sale authorities (begun in 1963); and (3) located in contractors' plants (excess contractor inventory).

Notwithstanding the decline in total volume mentioned above, the volume of property put to further Federal utilization has steadily increased from $218 million in 1960 to $435 million estimated for 1964. Surplus personal property costing $450 million will be donated each year in 1963 and 1964 for health, education, and civil defense uses within the States, compared to $350.7 million in 1962. Direct cost of handling the personal property utilization program in 1964 is 61 cents per $100 at acquisition cost of property utilized, compared to 61 cents in 1963, 60 cents in 1962, and 66 cents in 1961.

The increase in 1964 over 1963 provides full-year financing of positions authorized in 1963 and for 25 additional positions in field offices (15 staff officers and 10 clerical personnel) to produce an increase of $35 million over the 1963 program.

Screening, donation, and utilization workload and unit cost follow:

	1962	1963	1964
Utilization transfers (acquisition cost, in millions)	$362.7	$400.0	$435.0
Unit cost (per $100 transferred)	0.60	0.61	0.61
Performance cost	2,182,250	2,450,000	2,650,500
Property donated (acquisition cost, in millions)	350.7	450	450
Property screened (acquisition cost, in millions):			
Property with general applicability	621.0	1,000	1,000
Property with specialized applicability	852.8	1,000	1,000
Total	1,473.8	2,000	2,000

(b) *Sales.*—Until December 1960 the surplus property sales function had been delegated to the owning agencies under regulation by GSA. Steps are being taken to integrate the total civilian agenices' sales function into GSA. This is expected to be substantially complete by the end of 1963. During 1964 the sales volume is expected to remain at the 1963 rate of $56 million at acquisition cost. Proceeds are estimated to increase to $14 million in 1964, up from $12.5 million in 1963 and $6.4 million in 1962. The percentage of return, 1963–64, is estimated to remain at 18 percent. Unit cost in 1964 is expected to increase slightly over the projected level of $8.54 in 1963, compared to $14.94 actual in 1962.

The increase in 1964 over 1963 provides full-year financing for staff recruited in 1963 to produce an increase of $1.5 million in proceeds from the sale of surplus personal property.

The acquisition cost of property sold, sales proceeds, and unit cost follow:

	1962	1963	1964
Usable property sold (acquisition cost, in millions)	$39.8	$56.0	$56.0
Proceeds (percentage of acquisition cost)	15	18	18
Proceeds from usable property (in millions)	$5.8	$10.1	$10.1
Proceeds from scrap (in millions)	.6	2.4	3.9
Total proceeds	$6.4	$12.5	$14.0
Unit cost (per $100 proceeds)	$14.94	$8.54	$8.56
Performance cost	$949,188	$1,067,700	$1,197,700

(c) *Rehabilitation.*—Personal property to be rehabilitated in 1964 is estimated at $70 million, up from $28.5 million estimated for 1963 and $21 million in 1962. Beginning in 1964 rehabilitation services will be extended to the rehabilitation of excess property acquired by the Agency for International Development under section 608 of Public Law 87-195 (the Foreign Assistance Act of 1961). This will account for $41 million of the 1964 total estimate of $70 million. The balance of the 1964 estimate, or $29 million, is attributable to in-use and GSA-acquired excess property.

Unit costs will reduce to $0.77 per $100 of acquisition cost for property rehabilitated in 1964, compared to $1.36 in 1963 and $1.39 in 1962.

Workload and performance cost data for the "Personal property rehabilitation" activity is shown below.

The increase in 1964 over 1963 provides full-year financing for staff recruited in 1963 and for 14 additional positions in field offices to produce an increase of $41.5 million in terms of acquisition cost of property rehabilitated, at an increase in savings to the Government of $37.3 million in 1964 over 1963.

Acquisition cost of property rehabilitated, the cost of rehabilitation, savings to the Government, and unit cost follow:

	1962	1963	1964
Property rehabilitated (acquisition cost, in millions)	$21.0	$28.5	$70.0
Rehabilitation cost (in millions)	4.2	7.0	11.2
Savings (in millions)	16.8	21.5	58.8
Cost per $100 at acquisition cost	1.39	1.36	0.77
Performance cost	292,397	386,800	537,500

Personnel compensation and staffing: $3,338,800 for 471 positions distributed as follows:

	1962			1963			1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
(a) Utilization and donation program	36.0	231.0	267.0	35.0	246.0	281.0	35.0	271.0	306.0
(b) Sales program	21.0	83.0	104.0	21.0	84.0	105.0	21.0	84.0	105.0
(c) Rehabilitation program	5.0	32.0	37.0	7.0	39.0	46.0	7.0	53.0	60.0
Total positions	62.0	346.0	408.0	63.0	369.0	432.0	63.0	408.0	471.0
Average employment	58.0	321.5	379.5	61.2	356.2	417.4	61.2	384.3	445.5

Mr. THOMAS. For 1964 you want a total employment of 445, an increase of 28. You say:

This activity provides for (a) utilization of usable excess personal property, thereby obviating new purchases; (b) sale of surplus personal property; and (c) rehabilitation of personal property.

Do you actually take physical possession of this property?

Mr. BOUTIN. Some of it we do, Mr. Chairman.

Mr. THOMAS. Where do you store it after you take possession?

Mr. BOUTIN. Will you explain how that happens?

Mr. ROOS. We have two centers, one here in the former gun factory, and one in Denver. Those are the only two sales offices we have.

Mr. THOMAS. You only accumulate that property in nearby areas?

Mr. ROOS. That is right. The rest is sold on the site.

Mr. THOMAS. Why set up these two?

Mr. ROOS. Because we found in these two particular areas, because of the Federal center at Denver, all the Federal activities there, and the Federal activities here, that it was better to consolidate the sales.

Mr. BOUTIN. A lot of it is automobile sales where we can group them and get a better price.

Mr. THOMAS. Proceeds from sale of surplus personal property were $6.4 million in 1962 and are programed at $12.5 million in 1963 and $14 million in 1964.

You have an interesting table in the middle of the page.

How much do you spend in those two centers, the one in the District of Columbia and the one in Denver? Most all of that were automobiles?

Mr. BOUTIN. That is the general thing, and typewriters.

Mr. ROOS. In the District of Columbia $74,957. In Denver $25,638.

Mr. THOMAS. If you had to transport this property from all over the country——

Mr. BOUTIN. We would go broke, Mr. Chairman.

Mr. THOMAS. So you do not pay rent outside the two centers?

Mr. BOUTIN. I do not think we pay rent.

Mr. ROOS. We do not pay rent.

Mr. THOMAS. All your expense is salary?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. What does your personnel do?

PERSONAL PROPERTY REHABILITATION

You say:

> Personal property to be rehabilitated in 1964 estimated at $70 million, up from $28.5 million estimated for 1963 and $21 million in 1962. Beginning in 1964 rehabilitation services will be extended to the rehabilitation of excess property acquired by the Agency for International Development under section 608 of Public Law 87-195 (the Foreign Assistance Act of 1961). This will account for $41 million of the 1964 total estimate of $70 million. The balance of the 1964 estimate, or $29 million, is attributable to in-use and GSA-acquired excess property.

What was the figure we had awhile ago, $41 million rehabilitation for AID?

Mr. BOUTIN. Yes, estimated for 1964.

UTILIZATION PERSONNEL

Mr. THOMAS. Where are your personnel located?

Mr. BOUTIN. In each of the regional offices and here in Washington.

Mr. THOMAS. You have a total of 471.

Mr. BOUTIN. Yes.

Mr. THOMAS. In the field for 1964 you have 408 and 63 in the District of Columbia. What do these people do? The personnel is going up and up. What do they do?

Mr. BARRON. In rehabilitation, sir, or overall?

Mr. THOMAS. In this activity.

Mr. BARRON. In utilization, where we have the bulk of the people, we have the bulk of the saving through further use. They assign excess property for further Federal use by screening declarations of reported excess property and making contacts with using agencies to get further Federal utilization. We are asking for operating funds to handle utilization transfers in 1964 of property totaling $435 million at acquisition cost.

In the sales area they are engaged in the selling process.

As far as donations are concerned, that is covered in our utilization cost. The same people operate that.

Mr. THOMAS. I notice it costs 61 cents per $100?

Mr. BARRON. Yes, sir, for utilization.

Mr. THOMAS. What do the people do in utilization? That is not sales?

Mr. BARRON. That is correct. They receive reports of excess property and they prepare bulletins and circularize them.

Mr. THOMAS. It is all office work?

Mr. BARRON. And contact.

Mr. THOMAS. Any inspection?

Mr. BARRON. Yes, there is inspection and we have area utilization officers included who are out at military installations or other Federal sites.

PRINTING COSTS—PERSONAL PROPERTY

Mr. THOMAS. For printing you have $220,000 against $201,000. Is that $220,000 all for utilization?

Mr. BOUTIN. That is the total for personal property, Mr. Chairman. This includes printing of brochures, printing of catalogs——

Mr. BARRON. That is across the board. It would include bulletins on utilization.

Mr. THOMAS. Can you break it down between utilization, sales, and so on?

Mr. BARRON. The bulk goes for utilization.

Mr. THOMAS. What is the nature of your printing bill?

Mr. BARRON. For one item?

Mr. THOMAS. What do you spend for utilization on either real or personal property out of $220,000 for printing? How much do you spend on utilization?

Mr. BARRON. The bulk of it goes into these things [indicating].

These are excess property catalogs circularized on a regional basis throughout the United States.

Mr. THOMAS. How many of them are there?

Mr. BARRON. There are hundreds of them that go out as the property becomes available.

Mr. BOUTIN. I can give you a breakdown on printing and reproduction for the "Personal property activity," Mr. Chairman. The costs are $118,000 for utilization, $92,000 for sales, and $10,000 for rehabilitation.

Mr. THOMAS. How much do you spend now on donations? Do you spend any money on that for printing?

Mr. EVINS. $41 million on rehabilitation property given away.

Mr. BARRON. We do give out a bulletin but there is——

SERVICE DIRECTION—UDS

Mr. THOMAS. Your administrative expenses, $507,000 and it goes up $20,400.

You do not have any increase in jobs. You have about 50 jobs and that is general supervision. Does it take 50 people in the District of Columbia to supervise some 400 in the field?

Mr. BOUTIN. There are 22 in the District and 28 in the field for a total of 50, Mr. Chairman.

Mr. THOMAS. They all are supervisors?

Mr. BOUTIN. No, sir; regional directors and supporting staff.

PROPERTY REHABILITATION FOR AID

Mr. EVINS. What are you planning to do on this rehabilitation work for the Foreign Assistance Act?

Mr. BOUTIN. We have a memorandum of understanding we negotiated as a part of the triangular arrangement between AID, GSA, and the Department of the Army where the Army, at three installations over the country, rehabilitates primarily heavy equipment that AID can pick up from us or through us and have rehabilitated and use it for oversea aid.

Mr. EVINS. That would be a whole lot cheaper than doing it here or sending technicians out and training them over there?

Mr. BOUTIN. Very substantially cheaper.

EXPENSES, DISPOSAL OF SURPLUS REAL AND RELATED PERSONAL PROPERTY

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
24	Printing and reproduction	10	10	10
25	Other services	1,199	2,190	2,190
	Total obligations	1,209	2,200	2,200

Amounts available for appropriation

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Unappropriated balance brought forward	708	10,909	1,000
Receipts	64,518	65,000	73,000
Unobligated balance returned to unappropriated receipts	−53,108	−72,209	−70,800
Total available for appropriation	12,118	3,200	3,200
Deduct appropriation	1,209	2,200	2,200
Unappropriated balance carried forward	10,909	1,000	1,000

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Appraisers' fees and surveying	621	800	800
2. Auctioneers' and brokers' fees	279	920	950
3. Advertising	251	600	650
Total program costs, funded [1]	1,151	2,320	2,400
Change in selected resources [2]	58	−120	−200
Total obligations	1,209	2,200	2,200
Financing: New obligational authority (appropriation)	1,209	2,200	2,200

[1] Excludes adjustment of prior year costs, $2,000.
[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $790,000; (1962 adjustment, −$420,000); 1962, $428,000; 1963, $308,000; 1964, $108,000.

Mr. THOMAS. You have an appraiser's fee here of $2.2 million. Mr. Reporter, put page 184 in the record.
(The page referred to follows:)

Expenses, disposal of surplus real and related personal property

1963	$2,200,000
Change	0
1964	$2,200,000

HIGHLIGHT

"Appraisers, auctioneers, and brokers familiar with local markets are used to accelerate the disposal of surplus real and related personal property. Fees of appraisers, auctioneers, and brokers and costs of advertising and surveying are paid out of receipts, subject to a limit of 12 percent of the proceeds of all dispositions within each year (40 U.S.C.A. 485(b)). Also paid from such proceeds is the direct expense in connection with utilization of excess real and related personal property (68 Stat. 1051). Sales by both auctioneers and brokers amounted to $8.2 million in 1962 and are estimated at $12 million in 1963 and $14 million in 1964." (From the budget for 1964.)

JUSTIFICATION

Effective disposal of surplus real property is achieved by relying on use of contract realty brokers and auctioneers to supplement other disposal methods. The estimated fees of auctioneers and brokers amount to approximately 40 percent of the total requirements in both 1963 and 1964. Properties sold by auctioneers and brokers totaled 37 in 1962 and are estimated at 55 in 1963 and 1964.

Distribution of obligations by major category follows:

	1962	1963	1964
Surplus property	$1,074,653	$2,075,000	$2,075,000
Excess property	134,571	125,000	125,000
Total	1,209,224	2,200,000	2,200,000

Obligations by activity

	1962	1963	1964
Appraisers' fees and surveying	$637,811	$650,000	$650,000
Auctioneers' and brokers' fees	257,610	900,000	900,000
Advertising	313,803	650,000	650,000
Total obligations	1,209,224	2,200,000	2,200,000

A summary of the disposal workload and accomplishments financed in part from this appropriation is reflected in "Activity 1: Real Property," under "Operating expenses, UDS."

Mr. THOMAS (reading):

Appraisers, auctioneers, and brokers familiar with local markets are used to accelerate the disposal of surplus real and related personal property. Fees of appraisers, auctioneers, and brokers and costs of advertising and surveying are paid out of receipts, subject to a limit of 12 percent of the proceeds of all dispositions within each year (40 U.S. C.A. 485(b)). Also paid from such proceeds is the direct expense in connection with utilization of excess real and related personal property (68 Stat. 1051). Sales by both auctioneers and brokers amounted to $8.2 million in 1962 and are estimated at $12 million in 1963 and $14 million in 1964.

That is by statute, is it not?

Mr. BARRON. Yes, sir.

Mr. THOMAS (reading):

Also paid from such proceeds is the direct expense in connection with utilization of excess real and related personal property (68 Stat. 1051). Sales by both auctioneers and brokers amounted to $8.2 million in 1962 and are estimated at $12 million in 1963 and $14 million in 1964.

APPRAISERS' FEES

What is your average fee that you pay?

If you are going to sell $12 million, did it cost you $2.2 million for the appraisers' fees?

Mr. BARRON. We estimate the average appraisal cost for this year will be about $2,500 per contract appraisal.

Mr. THOMAS. You have a top limitation of 12 percent set by law. What do you pay? Do you pay the top 12 percent?

Mr. BARRON. No, sir. We pay contract appraisers on the basis of a fixed amount of dollars, a fixed contract price. This 12 percent is simply a maximum limitation on the total amount of proceeds of all dispositions that can be used under this authorization by statute.

Mr. THOMAS. It says that the fees of appraisers, auctioneers, and brokers and costs of advertising and surveying are paid out of receipts, subject to a limit of 12 percent. That is what the law says

and that is your basic act. Are you going to sell $12 million worth of property in 1963? Ten percent of $12 million is how much?

Mr. BOUTIN. $1.2 million.

Mr. THOMAS. What are you doing with this $1.2 million?

Mr. BOUTIN. $2.2 million is the total amount.

NATURE OF STATUTORY LIMITATION

Mr. MOODY. The 12 percent statutory limitation is really not a limitation on how much we can pay for the appraisers. That is a limitation on how much of the total proceeds can be put into this special account to use to pay appraisers, advertising, brokers, auctioneers, and surveyors.

Under the law that authorizes us to employ brokers, for example, we pay the going rate in a community.

Mr. THOMAS. You have a top limitation for all of your disposal items, excess, printing, and what not, of 12 percent.

Mr. MOODY. Yes; a limitation on the real property direct expenses which can be paid out of this fund. There is a top limitation of 12 percent on the amount of proceeds that can be used for this purpose.

Mr. THOMAS. I am asking, do you live within that 12 percent? On the face of it, you are paying what, 18 or 19 percent?

Mr. TURPIN. Mr. Chairman, if you applied that 12 percent to the $100 million disposal in 1964 that would be a top of $12 million that could be used under this authority. Under the estimate, it is only——

Mr. THOMAS. No; you say you are going to pay auctioneers and brokers $8.2 million. You are talking about what?

(Reading:)

Also paid from such proceeds is the direct expense in connection with utilization of excess real and related personal property.

Sales were $12 million, not $100 million, but $12 million.

Mr. BOUTIN. What we need here is the fee we pay as a percent of the sales price. In 1962 it was 3 percent.

Mr. THOMAS. It looks like you are spending 19 percent and that is all I am saying.

Mr. BARRON. Sir, the $12 million is the estimated amount of sales to be accomplished through auctioneers and brokers in 1963. The 12-percent statutory limitation, if applied to the estimated total proceeds of $100 million in 1964, would provide about $12 million maximum limitation.

Mr. THOMAS. Your justification does not say that.

Read the statute.

Do you have the statute here?

I remember we looked into it two or three times and it applies to your cost of brokerage fees.

Mr. OSTERTAG. Would not the 12-percent limitation for brokers and auctioneers be applicable to their sales?

Mr. THOMAS. Yes.

Mr. MORELAND. No, sir; applicable to the total proceeds which will be $100 million in 1964.

Mr. BOUTIN. On these contracts, what is your average fee in relation to income from a specific property? Do you run 4 percent or 3 percent?

Mr. MORELAND. Appraisal is one-fourth of 1 percent.

Mr. THOMAS. Do you mean your figure is wrong? It is either $100 million or $12 million. You set it out in your justification that you are going to dispose of $12 million worth of real property here in 1963 via the auctioneers and appraiser route, and so forth.

Mr. OSTERTAG. In your justification it states that sales by both auctioneers and brokers amounted to $8.2 million in 1962, and are estimated at $12 million in 1963 and $14 million in 1964.

Why is this not 12-percent applicable to the specific sales of auctioneers and brokers?

Mr. THOMAS. Read the statute, please.

Mr. MORELAND. That applies not only to proceeds realized through auctioneers and brokers——

Mr. THOMAS. Read the law. If you are right, your justification is wrong. Go ahead.

Mr. MOODY. Maybe it would be useful if I read the whole section since it is not very long.

Mr. THOMAS. Go ahead.

EXCERPT FROM SECTION 204(b), FEDERAL PROPERTY ACT

Mr. MOODY (reading):

All the proceeds of such dispositions of surplus real and related personal property made by the Administrator of General Services shall be set aside in a separate fund in the Treasury. Not more than an amount to be determined quarterly by the Director of the Bureau of the Budget may be obligated from such fund by the Administrator to pay the direct expenses incurred for the utilization of excess property and the disposal of surplus property under this act for fees of appraisers, auctioneers, and realty brokers, and for advertising and surveying. Such payments from this fund may be used either to pay such expenses directly or to reimburse the fund or appropriation initially bearing such expenses. Fees paid to appraisers, auctioneers, and brokers shall be in accordance with the scale of fees customarily paid for such services in similar commercial transactions, and in no event shall more than 12 per centum of the proceeds of all dispositions within each fiscal year of surplus real and related personal property be paid out of such proceeds under this authorization to meet direct expenses incurred in connection with such dispositions.

Then we have to account for it once each year.

PROCEEDS FROM REAL PROPERTY DISPOSALS

The point is that under this law, if our estimate of $100 million of income for real property next year is right, we would be authorized to spend up to 12 percent of the $100 million for this type of expense.

The amount that is being requested is only $2.2 million as compared to the maximum amount authorized.

Mr. THOMAS. Your language is misleading.

Mr. OSTERTAG. Mr. Moody, do you think that it was the intent of the law to make the fees applicable to all sales over and above those associated with the auctioneers and brokers and as such it should be limited to the sales in which they were associated?

Mr. MOODY. I think it was clearly the intent to apply to the total amount of the sales.

APPRAISERS' FEES

Mr. THOMAS. What do you allow for appraisers' fees—5 percent or 6 percent?

Mr. MORELAND. It is the commercial rate in the area, Mr. Chairman. It varies from sale to sale.

Mr. BOUTIN. Which average?

Mr. BARRON. $2,500 is about the average we have been paying on an appraisal.

Mr. THOMAS. I thought it was based on 5 or 6 percent of the total sale or 3 or 4 percent?

Mr. MORELAND. In the two tests we have made it runs about one-fourth of 1 percent of the proceeds for an appraisal.

Mr. OSTERTAG. Total proceeds?

Mr. MORELAND. Yes sir.

Mr. THOMAS. You are going to make a contract to begin with and you use a set of figures in the contract and you try to keep it to 1, 2, or 3 percent based upon the nature of the transaction and then you get a good piece of property involving a whole lot of money, which is easily sold, and you do not give them such a big fee, do you?

Mr. MORELAND. Ordinarily in a broker contract of that nature, Mr. Chairman, we may have a 5- or 6-percent base and then the percentage declines as the amount of the sale goes up. Again, this is commercial practice, more or less.

AUCTIONEERS AND BROKERS FEES

Mr. OSTERTAG. Perhaps I am confused or do not understand the picture, but why is a broker or an auctioneer the recipient of a fee over a sale in which he is not associated?

Mr. BOUTIN. He is not.

Mr. OSTERTAG. I thought he received the benefit of your total sales——

Mr. BOUTIN. No.

Mr. OSTERTAG. Will you clear this up for me as to the difference?

Mr. BOUTIN. On most of our sales, we handle them directly but on some sales, particularly where we have a lot of former-owner interests in housing projects where you have occupants who are interested in a particular unit they are occupying, we can get the highest income from that by using auctioneers and dividing it into parcels. That gives everybody an opportunity. Occasionally we use auctioneers where we have the type of facility we are talking about. We use brokers very, very seldom and when we do it is almost always industrial-type property that is going to be difficult to sell, and which is going to require broad contacts with industrial management groups.

However, this is very seldom and I do not think we had one this year, did we?

Mr. MORELAND. One.

Mr. OSTERTAG. What is the fee based on then?

Mr. BOUTIN. His fee is based on the value of the property assigned to him to try to sell.

If you have a property that has an appraised fair market value of $12 million, his fee is based on a percentage of that $12 million, or $10 million, or whatever it might be.

In the case of industrial brokers, their fees run from 6 percent down. In fact, we had one a while ago for 2¼ percent.

Mr. OSTERTAG. This figure of sales by auctioneers and brokers for fiscal year 1962 of $8.2 million is not correct?

Mr. MORELAND. It is correct. That represents the amount of property we have sold through that means.

Mr. THOMAS. What got me off was this 12-percent figure over there. Apparently it applies to the whole thing rather than to the fee to the broker.

Mr. MOODY. I think it would help, Mr. Ostertag, if I explain that auctioneers and brokers get a commission only on those sales they make. The 12-percent limitation is on the amount of the fund that would be available for that use and has nothing to do with how much they might get paid for any particular sale.

Mr. BOUTIN. It is based on the sale they make, that we are agreeable to.

Mr. MOODY. That is right.

Mr. THOMAS. Gentlemen, let us get some lunch and we will hear from Dr. Grover. We will try to go through the subject of records centers and spend the remainder of the afternoon on these items.

Following that we will go into stockpiling and other items and try to finish early tomorrow.

NATIONAL ARCHIVES AND RECORDS SERVICE, GENERAL SERVICES ADMINISTRATION

WITNESSES

BERNARD L. BOUTIN, ADMINISTRATOR
WILLIAM P. TURPIN, ASSISTANT ADMINISTRATOR FOR FINANCE AND ADMINISTRATION
DR. WAYNE C. GROVER, ARCHIVIST OF THE UNITED STATES
DR. ROBERT H. BAHMER, DEPUTY ARCHIVIST OF THE UNITED STATES
WALTER ROBERTSON, JR., ADMINISTRATIVE OFFICER

OPERATING EXPENSES, NATIONAL ARCHIVES AND RECORDS SERVICE

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	10,135	10,644	11,024
	Positions other than permanent	103	56	39
	Other personnel compensation	34	26	91
	Total personnel compensation	10,272	10,726	11,154
12	Personnel benefits	794	827	857
21	Travel and transportation of persons	80	100	100
	Payment to interagency motor pools	17	17	17
22	Transportation of things	148	154	156
23	Rent, communications, and utilities	956	932	990
24	Printing and reproduction	87	92	92
25	Other services	306	278	291
	Payment to administrative operations fund	638	695	734
	Services of other agencies	67	68	60
26	Supplies and materials	321	334	335
31	Equipment	104	90	90
32	Lands and structures	132	125	125
	Total obligations	13,924	14,438	15,000

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	1,868	1,851	1,861
Full-time equivalent of all other positions	22	12	9
Average number of all employees	1,809	1,806	1,814
Number of employees at end of year	1,839	1,822	1,834
Average GS grade	5.9	5.9	6.0
Average GS salary	$5,815	$6,313	$6,311
Average salary of ungraded positions	$5,000	$5,006	$5,006

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Records management and centers	9,327	9,603	9,888
2. Archives and related services	3,452	3,599	3,765
3. Service direction	552	541	613
4. Administrative operations	638	695	734
Total program costs, funded [1]	13,969	14,438	15,000
Change in selected resources [2]	−45		
Total obligations	13,924	14,438	15,000
Financing: Unobligated balance lapsing	44		
New obligational authority	13,968	14,438	15,000
New obligational authority:			
Appropriation	14,000	14,000	15,000
Transferred to "Salaries and expenses, Office of Administrator" (5 U.S.C. 630d) (−)	−32		
Appropriation (adjusted)	13,968	14,000	15,000
Proposed supplemental due to pay increases		438	

[1] Includes capital outlay as follows: 1962, $209,000; 1963, $185,000; 1964, $185,000. Excludes adjustments of prior year costs of $16,000.

[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $300,000; (1962 adjustments, −$35,000); 1962, $220,000; 1963, $220,000; 1964, $220,000.

Mr. THOMAS. Gentlemen, will the committee please come to order? Let us take a look at the records item.

Mr. Reporter, put page 186 in the record as well as pages 187 through 189.

(The pages follow:)

Summary of new obligational authority and average employment

	New obligational authority		Average employment					
			Total		Central office		Field	
	1963	1964	1963	1964	1963	1964	1963	1964
A. NEW OBLIGATIONAL AUTHORITY AND RELATED EMPLOYMENT.								
Operating expenses, NARS:								
1. Records management and centers	$9,603,400	$9,888,000	1,328	1,333	53	53	1,275	1,280
2. Archives and related services	3,598,400	3,765,000	447	450	408	410	39	40
3. Service direction	541,200	613,000	31.2	31	11.2	11	20	20
4. Administrative operations	695,000	734,000	------	------	------	------	------	------
Total NOA, subtotal employment	14,438,000	15,000,000	1,806.2	1,814	472.2	474	1,334	1,340
B. OTHER EMPLOYMENT								
Reimbursements: Operating expenses, NARS	------	------	5	5	5	5	------	------
Trust funds	(1)	(1)	46.7	46.2	37	36.5	9.7	9.7
National Archives trust fund	(1)	(1)	43.7	43.2	34	33.5	9.7	9.7
National Archives gift fund	(1)	(1)	3	3	3	3	------	------
Subtotal, other employment	------	------	51.7	51.2	42	41.5	9.7	9.7
Total employment, NARS	------	------	1,857.9	1,865.2	514.2	515.5	1,343.7	1,349.7

[1] Funds available not considered new obligational authority in budget schedules.

Summary reconciliation of 1964 estimate to amount for 1963

1963 appropriation in annual act	$14,000,000
Proposed supplemental due to pay increase	+438,000
Total for 1963	14,438,000
Increases in 1964:	
Federal records centers	249,800
Records management assistance	34,800
National Archives functions	88,300
Federal Register publications	33,500
Presidential libraries operations	44,800
Penalty mail	55,800
Adjustment for administrative operations costs	39,000
Other minor program adjustments	16,000
Total	562,000
1964 estimate	15,000,000

Analysis by activities

Activities	1963 adjusted	Increases	1964 estimate
1. Records management and centers	$9,603,400	$284,600	$9,888,000
2. Archives and related services	3,598,400	166,600	3,765,000
3. Service direction	541,200	71,800	613,000
4. Administrative operations	695,000	39,000	734,000
Total	14,438,000	562,000	15,000,000

1963 appropriation	$14,000,000
Pay act supplemental	438,000
1963 comparative	14,438,000
Change	+562,000
1964 estimate	15,000,000

GENERAL STATEMENT

"This appropriation provides for basic operations of the General Services Administration which deal with management of the Government's archives and records, including custody and administration of permanent records in the National Archives and other noncurrent records in Federal records centers, assistance to records management programs of Government agencies, operation of presidential libraries, and filing and publication of Federal laws and regulations. The estimate for 1964 is $562,000 more than 1963 financing, $285,000 of which is for records management assistance and records centers activities.

"In 1964 records in custody of the National Archives and Federal records centers will total 8.2 million cubic feet. Reference services will total 5.4 million.

"Fair value of personal property received from other appropriations or funds without cost for use by GSA is as follows: 1962, $85,000; 1963, $63,000; 1964, $58,000." (From the budget for 1964.)

Total employment under this appropriation has been reduced during the past 2 years. Average employment in 1961 totaled 1,832; in 1962 it totaled 1,809; and the estimate for 1963 is 1,806. An increase of only eight in average employment is requested for 1964.

The estimate for 1964 includes $841,000 for increased pay as a result of the Federal Salary Reform Act of 1962. The increase over 1963 consists of $159,000 for (*a*) additional workload in regional records centers ($45,300); (*b*) increased postage fees ($55,800), and small increases in the Federal Register, Presidential libraries and administrative operations ($57,900); and $403,000 for pay costs.

APPROPRIATION LANGUAGE

"For necessary expenses in connection with Federal records management and related activities as provided by law, including reimbursement for security guard services, and contractual services incident to movement or disposal of records [$14,000,000] *$15,000,000*."

FUNCTIONS PERFORMED BY NATIONAL ARCHIVES AND RECORDS SERVICE

Mr. THOMAS. This general language here is worth repeating [reading]:

The National Archives and Records Service promotes improved records management and disposal practices in Federal agencies, operates 16 Federal records centers, and selects, preserves, and services the permanently valuable noncurrent records of the Federal Government. It also publishes the slip laws, the U.S. Statutes at Large, constitutional amendments, Presidential documents, and administrative regulations having general applicability and legal effect; and preserves, publishes, and administers the historical materials in Presidential libraries operated by GSA.

The Archivist of the United States chairs the National Historical Publications Commission, the Administrative Committee of the Federal Register, and provides leadership to the Federal Records Council. He also chairs the National Archives Trust Fund Board which receives and administers donations for the benefit of the National Archives, and through the National Archives Trust Fund, furnishes for a fee copies of records in the custody of the National Archives.

That is a good statement.

This table on page 189 tells a good story.

This table on page 187 shows that you are seeking an appropriation of $15 million as against $14 million for last year.

I see that your employment this year is 1,814 as against 1,806 last year and then it is broken down for 1964 where you have 474 people in the central office as against 1,340 in the field.

The appropriation is broken down as follows:

"Records management and centers" go from $9.6 million to $9,888,000; "Archives and related services," $3,598,000 as against $3,765,000; "Service direction," $541,200 as against $613,000; "Administrative operations," $695,000 as against $734,000. That makes your increase in the neighborhood of $562,000, does it not?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. The detail on the increases over last year under "Operating expenses" is broken down on page 188.

Let us take a look at "Administrative expense." [Reading:]

This appropriation provides for basic operations of the General Services Administration which deal with management of the Government's archives and records, including custody and administration of permanent records in the National Archives and other noncurrent records in Federal records centers, assistance to records management programs of Government agencies, operation of Presidential libraries and filing and publication of Federal laws and regulations. The estimate for 1964 is $562,000 more than 1963 financing, $285,000 of which is for records management assistance and records centers activities.

INCREASES IN 1964

The increases for the records centers are $249,800 over last year; management assistance, $34,800; archives functions, $88,300; Federal Register, $33,500; Presidential libraries, $44,800; penalty mail, $55,800; administrative operations, $39,000; other minor program adjustments $16,000.

The biggest item is the records management for 16 centers. The next big one is archives and related services. The estimate for 1964 includes $841,000 for increased pay as a result of the Federal Pay Act.

PAY ACT COSTS

The increase over 1963 is already in the record in detail but what did the pay act cost you last year?

Dr. GROVER. Last year it was $438,000.

Mr. THOMAS. What part of that did you absorb?

Dr. GROVER. We were not able to absorb anything significant in 1963 because so much of our expenses are payroll costs. We would have had to go into a reduction in force. The pay act cost for 1964 is $403,000 more than 1963, for a total of $841,000.

USE OF EXCESS FEDERAL PERSONAL PROPERTY

Mr. THOMAS. Fair value of personal property received from other appropriations or funds without cost for use by GSA is as follows: 1962, $85,000; 1963, $63,000.

What is this item? I do not recognize it.

Mr. TURPIN. That is the value of items which the Archives and Records Service utilized from excess property.

Mr. THOMAS. Do you mean that that is the revenue from the trust fund?

Mr. TURPIN. No, sir. That is the amount of excess Federal Government property that Archives has utilized.

Mr. THOMAS. That comes about through utilization?

Mr. TURPIN. Yes, sir.

NATIONAL ARCHIEVES TRUST FUND

Mr. THOMAS. How much money do you have in your trust fund, Doctor? What is the revenue from it?

Dr. GROVER. I think we have assets of around half a million dollars. Income and expense runs about $400,000 a year, and it turns over, most of it.

Mr. THOMAS. What do you mean "turns over"?

Dr. GROVER. The reproduction funds are revolving funds.

Mr. THOMAS. Do you remember what the income is from it per year?

Dr. GROVER. What is the income?

Mr. ROBERTSON. Mr. Chairman, total receipts in the trust fund approximate $400,000 a year and the expenses are approximately $365,000 a year. There is a 10-percent markup over cost.

Mr. THOMAS. Are you constantly given additions to the trust fund in the way of gifts?

Dr. GROVER. We have had some gifts, Mr. Chairman, from the Ford Foundation and the Rockefeller Foundation but not in any great number of dollars.

Mr. THOMAS. What is the origination of property in the trust fund? Is that by statute or what?

Dr. GROVER. Yes, sir; the National Achives trust fund was set up by statute in 1941.

PURPOSE AND USE OF TRUST FUND

Mr. THOMAS. What was the purpose of it?

Dr. GROVER. It was similar to the statute governing the Library of Congress and other institutions of this sort, to accept and expend gifts for the benefit of the institution.

Mr. THOMAS. The purpose is to receive gifts and likewise to make expeditures from that?

Dr. GROVER. Yes, sir.

Mr. THOMAS. When you get a gift, does it have strings on it?

Dr. GROVER. They all come with certain strings on them.

Mr. THOMAS. Are the main strings such that you cannot spend——

Dr. GROVER. Anything except for a certain purpose.

Mr. THOMAS. The revenue from it, or what?

Dr. GROVER. Usually we have not had any capital donations. One project we have had going has to do with the publication of the documents relating to the ratification of the Constitution and the Bill of Rights. The money we have for carrying on this project was given to us by the Ford Foundation at our request. It is under the National Historical Publications Commission.

Mr. THOMAS. It is usually given with specific instructions for the use of it and is usable only for that purpose over a period of years?

Dr. GROVER. Yes, sir.

Mr. THOMAS. As far as permanent capital to the fund is concerned, the donations are not made in that fashion?

Dr. GROVER. No, sir.

RECORDS MANAGEMENT AND CENTERS

Mr. THOMAS. Let us take a look at your centers. Insert pages 190, 192, 194, and 195.

(The pages referred to follow:)

1. Records management and centers

	Amount	Average employment		
		Department	Field	Total
1963	$9,603,400	53	1,275	1,328
Change	+284,600		+5	+5
1964	9,888,000	53	1,280	1,333

HIGHLIGHT

"Records of Federal agencies which must be retained for a period of time, but are not needed for frequent reference, are brought into and administered in regional Federal records centers serving specified geographical areas. National centers at St. Louis administer the service and medical records of veterans of the armed services and records of former civilian employees of the Government, and maintain a locator file for civilians currently employed. In addition to civilian agencies, records center facilities are now furnished to the entire Naval Establishment, the Army, and Air Force at the seat of Government, and for selected Army records throughout the world.

"The workload in Federal records centers is shown in the following table:

	1962 actual	1963 estimate	1964 estimate
Regional centers:			
Records administered (millions of cubic feet)	6.64	6.88	7.08
Unit cost per cubic foot of records administered	$0.562	$0.563	$0.569
Reference services (millions)	3.11	3.11	3.11
National personnel centers:			
Reference services (millions)	1.76	1.76	1.76
Interfiling documents (millions)	3.83	4.23	4.23"

(From the budget for 1964.)

Summary of performance cost

	1962	1963	1964
(*a*) Regional records centers	$3,735,080	$3,872,300	$4,029,000
(*b*) National personnel records centers	4,595,087	4,690,900	4,784,000
(*c*) Records management assistance	864,380	915,200	950,000
(*d*) Capital outlay (equipment)	129,852	125,000	125,000
Total cost or estimate	9,324,399	9,603,400	9,888,000

JUSTIFICATION

(*a*) *Regional records centers*

	1962	1963	1964
Records administered (cubic feet)	6,640,415	6,877,329	7,077,329
Unit cost	$0.562	$0.563	$0.569
Performance cost	$3,735,080	$3,872,300	$4,029,000

A cubic foot of records administered is the work unit used to express overall workload. This unit includes (*a*) bringing records into records centers (accessioning), (*b*) destroying records in accordance with disposal regulations (disposal) and (*c*) answering inquiries based on files in custody (reference).

Workload data in cubic feet

	1962	1963	1964
Records in custody beginning of year	5,362,236	5,652,329	5,777,329
Records accessioned	740,801	675,000	725,000
Records disposed of	537,378	550,000	575,000
Records transferred in (net)	86,670	----------	----------
Workload, records administered	6,640,415	6,877,329	7,077,329

Increased funds requested for 1964 will enable regional centers to meet expanding requirements of civilian and military agencies for records center services. The increase will provide for administering an additional 200,000 cubic feet of records in 1964. The number of reference services furnished in 1963 and 1964 are expected to remain at the 1962 level of 3.1 million.

Records center operations bring about economies by curtailing in the agencies they serve the purchase of new filing equipment and acquisition of additional space. The records program in 1962 emptied for reuse the equivalent of 49,447 usable filing cabinets; 9,276 usable transfer cases; 611,219 linear feet of shelving; and cleared the equivalent of 426,210 square feet of office space and 287,731 square feet of storage and industrial space. Replacement value of the equipment released and annual cost of the space cleared totaled $4.3 million.

Based on actual operations from its inception in 1950 through June 30, 1962, the records center program has emptied for reuse the equivalent of (*a*) 578,700 usable filing cabinets, (*b*) 346,000 usable transfer cases, (*c*) 2,210,000 linear feet of shelving, and (*d*) has cleared the equivalent of 3 million square feet of office space, and 3.1 million square feet of storage and industrial space. Replacement value of the equipment released and total cost of the space cleared totaled over $42 million.

(b) National personnal records centers

	1962	1963	1964
Reference	1,763,795	1,760,000	1,760,000
Unit cost	$2.06	$2.08	$2.12
Performance cost	$3,630,119	$3,654,400	$3,732,000
Interfiles	3,835,658	4,230,000	4,230,000
Unit cost	$0.25	$0.25	$0.25
Performance cost	$964,968	$1,036,500	$1,052,000
Total performance cost	$4,595,087	$4,690,900	$4,784,000

Workload of this subactivity is measured by two work units: (*a*) number of reference services rendered, which principally is providing documents and information upon request by other agencies and by veterans, and (*b*) interfiling personnel, pay, and medical documents received from other agencies for separated civilian and military personnel and interfiling data on some 2.5 million civilians presently employed by the Government.

At the beginning of 1961 DOD turned over to GSA its Military Personnel Records Center at St. Louis. This, with the GSA operated Civilian Personnel Records Center, comprises this subactivity.

The Civilian Personnel Records Center, containing 55 million case files, furnished information or documents for reemployment purposes, service transcripts, investigations, unemployment insurance, retirement, apportionment and location of personnel, and for many other needs of the Government and the individual.

Since the initial transfer of separated civilian personnel records from the Departments of Army, Navy, and Air Force in 1951, employment at the Civilian Personnel Records Center has been reduced from 305 to an estimated average employment of 216 for 1963. While employment has been reduced 28 percent, records holdings have more than doubled by the acquisition of files from all agencies and reference services have increased from 120,000 to the current rate of 400,000 per year.

The Military Personnel Records Center maintains and services 35 million personnel and medical files of veterans who have served in the Army, Navy, Marine Corps, and Air Force. It receives on a continuing basis for interfiling records of Navy, Marine Corps, and Air Force personnel as they are separated from the services. Approximately 50 percent of the inquiries on military personnel records relate to specific adjudications by the Veterans' Administration; 20 percent to requirements of the Department of Defense; 25 percent to needs of the veteran himself; and the remainder to requirements of State and local institutions and the general public.

Nearly 70 percent of all inquiries on medical records pertain to Veterans' Administration's needs in its medical and other beneficiary programs to the veterans. These inquiries relate to claims, verification of active service for social security benefits, replacement of lost discharge certificates, verifying and issuing awards and decorations due for services, investigations, identification and burials, medical treatments, sociological research, and for many other services to veterans or their beneficiaries.

A significant reduction in employment has been made at the Military Personnel Records Center since its takeover at the beginning of 1961. Average employment in 1961 was 659; in 1962 it was reduced to 626; and it is estimated to be further reduced to 600 in 1963.

The chart on opposite page shows for each center the distribution of reference services by agencies serviced.

(c) Records management assistance

Total cost or estimate:

1962	$864,380
1963	915,200
1964	950,000

Some 13,500,000 cubic feet of records are now to be found in Federal Government offices throughout the world. This represents an investment of 2,600,000 filing cabinets, occupying over 13 million square feet of space. More than 250,000 Federal employees are required to maintain and service these records.

GSA is required by law to provide agencies with standards for the control of recordmaking, recordkeeping, and records disposal. GSA also helps by providing better and more economical practices and techniques and promoting their use. GSA staff leadership is provided in part through workshops designed to show agency supervisors how to operate less costly mail systems, more effective disposal programs, and more efficient filing, correspondence, directives and forms systems. Agencies can also learn how to take advantage of electronic technology and to automate records systems at substantial savings.

Records management surveys based on requests for assistance from the agencies themselves provide a major source of improvement. A total of 85 surveys were conducted in 1962.

In 1963 some 20 surveys will be conducted for agencies at the seat of government and about 70 surveys in the field. These will cover paperwork procedures in some Washington or field offices of every executive department, in a dozen independent agencies, and in a number of U.S. courts. Similar surveys will be conducted in 1964, with priority being given to agencies having the largest or most difficult problems.

(d) Capital outlay

Investment cost:

1962	$129,852
1963	125,000
1964	125,000

At the beginning of 1963 shelving on hand in regional records centers provided a capacity for 6,139,514 cubic feet of records. Units being acquired with NARS funds during 1963 will increase this capacity to 6,290,000 cubic feet. Holdings of the centers at the beginning of 1963 totaled 5,652,329 cubic feet. Space and shelving will be needed for many of the 1964 accessions, estimated at 725,000 cubic feet, because disposal actions (575,000 cubic feet) tend to occur during the last half of the year. Holdings on June 30, 1963, are estimated at 5,777,329 cubic feet.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $7,728,000 for 1,361 permanent positions (1,333 average employment), distributed as follows:

	1962			1963			1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
(a) Regional records centers	12	448	460	13	443	456	13	449	462
(b) National personnel records centers	.....	842	842	.....	826	826	.....	826	826
(c) Records management assistance	41	32	73	42	31	73	42	31	73
Total positions	53	1,322	1,375	55	1,300	1,355	55	1,306	1,361
Average employment	50.3	1,292.3	1,342.6	53	1,275	1,328	53	1,280	1,333

Mr. THOMAS. How many centers do we have; sixteen?

Mr. BOUTIN. Sixteen is correct.

Mr. THOMAS. Does that include the big center in St. Louis, the Personnel Center, the medical records for veterans?

Mr. BOUTIN. That includes everything, Mr. Chairman.

Mr. THOMAS. That is the last acquisition is it?

Mr. BOUTIN. The Military Personnel Records Center.

Mr. THOMAS. In St. Louis?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS (reading):

National centers at St. Louis administer the service and medical records of veterans of the armed services and records of former civilian employees of the Government, and maintain a locator file for civilians currently employed. In addition to civilian agencies, the records center facilities are now furnished to the entire Naval Establishment, the Army, and Air Force at the seat of government and for selected Army records throughout the world.

That is in the District of Columbia, so, for all practical purposes, you have two record centers for the military; is that right?

Dr. GROVER. No, sir. The Military Personnel Records Center at St. Louis is the only one that deals exclusively with military records.

Mr. THOMAS. What service do you render here in the District of Columbia to the military?

Dr. GROVER. We render the same type of service to the military here as any other regional records center.

Mr. THOMAS. You do not give them any special treatment?

Dr. GROVER. No, sir.

CAPTURED GERMAN RECORDS

Mr. BOUTIN. The only thing that is not the same are the German Army war records. We have all of those in this region; correct?

Dr. GROVER. We have the captured German records that are gradually being restituted.

Mr. THOMAS. Did we bring them over here?

Dr. GROVER. Yes; they were brought over by the Army.

Mr. THOMAS. I thought the records you had concerned the prisoners of war you had domiciled in this country?

Dr. GROVER. We have some records of prisoners of war domiciled in this country at Philadelphia.

Mr. THOMAS. Do you intend to keep them or turn them over to the German Government,

Dr. GROVER. The records we have here are gradually being returned to the German Government but some of the records will not be returned.

Mr. THOMAS. Off the record.

(Discussion held off the record.)

INCREASED SPACE IN EXISTING CENTERS

Mr. THOMAS. Do you have any increase in square footage planned for 1964 in any of your records units?

Dr. GROVER. We will be increasing our space at Fort Worth, which we are moving into now. We will be increasing a little at Seattle. The total square footage in the regional centers will be around 2 million square feet.

Mr. THOMAS. Increase?

Dr. GROVER. No; total.

Mr. THOMAS. How much will the increase be over last year?

Dr. GROVER. The increase will not run to more than 10 percent of that.

Mr. THOMAS. It will not run that much, will it, Doctor?

Dr. GROVER. Yes, it will because of Seattle and Fort Worth.

Mr. BOUTIN. Some of this is the development of reserve space, Mr. Chairman.

Mr. THOMAS. You have millions of cubic feet of records. In 1962 you had 6.64 and the 1963 estimate is 6.88. That is certainly not a 10-percent increase in records.

Dr. GROVER. No.

Mr. THOMAS. For 1964, it goes up to 7.08 which is a very little increase.

Dr. GROVER. As the Administrator said, when you move into a facility you have to have some expansion space.

Mr. THOMAS. You have already acquired the space?

Dr. GROVER. Yes, sir.

Mr. THOMAS. Is there any additional cost added to this? This is a nice table at the top of page 192, gentlemen, on the records custody. Is this in cubic feet?

Dr. GROVER. This is in cubic feet.

Mr. THOMAS. You have 5,777,000 in custody. Those are accessions?

Dr. GROVER. Those are records in custody at the beginning of the year.

Mr. THOMAS. Records accessioned; 725,000 from 675,000.

Then your unit costs in 1962 were 25 cents?

UNIT COST DATA

Dr. GROVER. Unit costs for regional centers are shown on page 190, Mr. Chairman.

Mr. THOMAS. This is your personnel record centers?

Dr. GROVER. That is right.

Mr. THOMAS. This is 25 cents for what?

Dr. GROVER. 25 cents for interfiling papers. The reference unit cost is $2.12.

Mr. THOMAS. How does that compare with your unit cost of your 15 record centers? I believe you set it out here as $0.563 and $0.569. What is that?

Mr. BOUTIN. That is the cost per cubic foot of records administered in the regional record centers.

Mr. THOMAS. That is $0.50 a cubic foot?

Dr. GROVER. Yes, sir. There are different units of measure because of the different nature of these centers.

Mr. THOMAS. Spell that out.

Dr. GROVER. The national centers at St. Louis acquire and dispose of very few records compared with the volume handled by the regional centers. In these national centers, the main work unit is a reference service, and the interfiling of incoming documents. Those centers do handle a great many reference requests by mail and both of them together handle around 1,760,000 cases from all over the country.

Mr. THOMAS. You are referring to the St. Louis center?

Dr. GROVER. Yes, sir.

Mr. THOMAS. It is half the cost you have in your regular 15 establishments?

Dr. GROVER. I did not understand you.

Mr. THOMAS. It is half the cost, is it not?

Dr. GROVER. Yes, sir; it is.

REFERENCE SERVICES

Those two big record centers do a whale of a lot of work in the way of reference.

Mr. THOMAS. Do you set that up on a cubic foot basis, too?

Dr. GROVER. No. In the national centers we use the actual workload in terms of reference service and the interfiling of new folders and papers coming into the centers.

Mr. THOMAS. What is your unit cost in your military center? What is that based on?

Dr. GROVER. The unit cost there is based on reference services.

Mr. THOMAS. Just like it is in the other one?

Dr. GROVER. In both the national centers.

Mr. THOMAS. Why should one be twice as much as the other?

Dr. GROVER. Mr. Chairman, the unit cost in the regional centers is a cubic foot of records administered, which takes into account not only reference cases but the accessioning and disposal cost.

Mr. THOMAS. That is just what I asked you—if that was on a cubic-foot basis or a per-item basis? If it is on a cubic-foot basis——

Dr. GROVER. I did not understand you, Mr. Chairman. I am sorry.

Mr. THOMAS. Translated into purely references per cubic foot, the Veterans' Center and the Military Center will do five times as much work per cubic foot as the regional centers, will they not?

Dr. GROVER. No. The reference service costs in the regional centers will be 45 or 50 cents because it is a different kind of reference service. It is a loan service back to the originating agency. It is relatively cheap.

Mr. BOUTIN. It is really pulling files, mailing them out or duplicating them and refiling when they come back.

Dr. GROVER. That is right; whereas the national centers which have these specialized types of records, civil service employee records or military personnel records, handle all kinds of mail and questions by mail. They literally fill out millions of forms relating to veterans' benefits of various kinds. They do not send the file itself out.

Mr. EVINS. When does the Veterans' Administration transmit its records? As a matter of information, let us say you write on an insurance matter and they have the records. When do you acquire those and what kind of records do you hold from the Veterans' Administration?

Dr. GROVER. The records we keep in these regional centers are those which have become relatively inactive for one reason or another. In the insurance cases, while a claim is active, or the man is still holding a policy, the Veterans' Administration will keep it, but when the veteran gives up his policy then the Veterans' Administration will send it to us and we hope ultimately to destroy it, but they want to keep it as long as there is any chance of the veteran coming in for an old claim or a new policy.

RECORDS CENTERS EMPLOYMENT DATA

Mr. THOMAS. What is the average employment at one of your record centers? You say in St. Louis it is 626 and you hope to get that down to about 600?

Dr. GROVER. Yes, sir.

Mr. THOMAS. What is the average employment at your other 15 centers?

Dr. GROVER. The total for the other 14 centers, is 430 average employment in 1963 and in 1964 requested, 435.

Mr. THOMAS. The other 15?

Dr. GROVER. The other 14. You see, you have two national centers in St. Louis; one for military personnel records and the other for civilian personnel records.

Mr. THOMAS. They will average about 400 to each one?

Dr. GROVER. The military center has a staff of over 800 people.

Mr. THOMAS. Not now. When you took it over you had 659?

Dr. GROVER. I am sorry. It is around 600.

The civilian center has 214 and that is 814 combined, the figure I was thinking of.

Mr. BOUTIN. December 31, 1962, record center employment was 13 in region 1; 85 in region 2; and 151 in the center in region 3. The others go from 35 down to 14.

Mr. THOMAS. I did not think I recalled seeing any number like 600 or even 100 in most of your record centers.

Dr. GROVER. Only in Alexandria, Va., sir.

EMPLOYMENT IN THE DISTRICT OF COLUMBIA

Mr. THOMAS. How many do you have here in the District of Columbia?

Mr. BOUTIN. 151 in Alexandria.

Dr. GROVER. In the regional center here; yes, sir.

Mr. THOMAS. You have it set out in the table as 53 in the District of Columbia for your records management and centers. Archives is something else.

Dr. GROVER. That is in the central office.

Mr. THOMAS. That is what I am talking about.

Dr. GROVER. I am including in the central office archives, records management, Federal Register——

Mr. THOMAS. No; you have 474 for that and then you have 53 in records management.

Mr. TURPIN. That is on page 197 of the green sheets; 53 for records management assistance and overall activity supervision. That is exclusive of the record center in Alexandria.

Mr. THOMAS. Out of a total of what, 1,275, in records management in your centers?

Mr. BOUTIN. Records management and centers, we have a total of 1,361 positions projected for 1964; 1,355 in 1963.

Mr. THOMAS. You have a total of 1,333, average employment for 1964, of which 53 are in the Washington office?

Mr. BOUTIN. Yes, sir.

FUTURE WORKLOAD PROJECTIONS

Mr. THOMAS. Are you making money, Doctor?

Dr. GROVER. I think we are still making a little money, Mr. Chairman.

Mr. THOMAS. What did we use, about 7 million cubic feet for next year in all your warehouses?

Dr. GROVER. About 7 million.

Mr. THOMAS. You used the figure 13 million that you ought to have additional?

Dr. GROVER. We ought to have——

Mr. THOMAS. I mean by that, records from the various agencies.

Dr. GROVER. That ought to come from the offices to these centers.

Mr. THOMAS. Thirteen million would do and you would be in business good?

Dr. GROVER. Let us leave a few records in these offices. Particularly in Washington, and if I may reopen that subject——

Mr. THOMAS. How many of those 13.5 million cubic feet for records will be found all over the world? You say Federal records but what part of that 13.5 million do you feel you ought to have?

Dr. GROVER. I think another 3 million cubic feet. It would put records about half in the centers and half in the offices.

ECONOMY OF HAVING RECORDS IN CENTERS

Mr. THOMAS. What are these records costing the taxpayer not in your records center?

Dr. GROVER. On the basis of our actual figures for 1962, costs in the records centers on space are 10-to-1 cheaper and on equipment it is about 5 to 1. We not only economize on floor space——

Mr. THOMAS. How do you arrive at those figures?

Dr. GROVER. May I give you the figures on that?

Mr. THOMAS. Sure. That is what I am asking for.

Dr. GROVER. For 1961, in regional centers our costs, or the agency's costs, were as follows:

On records moved to us, 287,731 square feet stored at 85 cents a square foot in agency storage space came to $244,000. In addition records moved to us from 462,210 square feet of office space at $2.20 per square foot amounts to $937,000, which I think is cheap, for a total of $1,181,000. For the same quantity of records stored in our regional centers the cost to us was $101,000. That is a ratio of 10 to 1 on space.

SPACE RENTAL

Mr. THOMAS. What rent do you pay? Is all of your space Government-owned?

Dr. GROVER. No, sir. We have some leased space out at Franconia, a very small part, 125,000 square feet.

Mr. THOMAS. What are you paying for that, 99 cents.

Dr. GROVER. The same as everybody else in Franconia. I do not know.

Mr. THOMAS. That is right, 99 cents.

Mr. EVINS. Franconia is too far away?

Dr. GROVER. Franconia is about the right distance.

Mr. THOMAS. Go ahead.

Dr. GROVER. We are paying for leased space in Chicago; I think that is a high cost space, about 80 cents a square foot.

Mr. THOMAS. You still have that old big building on the waterfront in New York, the appraisers warehouse?

Dr. GROVER. We still have that old Appraisers Storage or Post Office Building at 641 Washington Street.

Mr. THOMAS. Where is your space in Chicago?

Dr. GROVER. In Chicago, it is out by the airport.

Mr. BOUTIN. Right next door, Mr. Chairman, to the Federal Supply Warehouse.

Dr. GROVER. We are getting out of the leased space in Fort Worth by moving in the general depot and that is all.

Mr. THOMAS. I do not know about your costs of 10 to 1. That sounds awfully high.

Dr. GROVER. Mr. Chairman, it is better space utilization. In offices records are kept on a ratio of 1 cubic foot of records to 1 square foot of space; that is how you will find them in filing cabinets in the offices.

Mr. THOMAS. I think the average rent of a building paying for a multiplicity of agencies will not exceed $2.75 a square foot.

Dr. GROVER. We figured it at only $2.20.

Mr. THOMAS. For each one of these agencies, the rule of thumb would be they have to set aside for records about 15 percent of the total space. What is a good rule of thumb.

Mr. BOUTIN. That would not be far off, 15 percent.

Mr. THOMAS. As far as rent is concerned, your record space would cost in the neighborhood of 90 cents to $1? Do you have any record centers where you pay in excess of $1?

Mr. BOUTIN. No, sir; Chicago and Franconia are the only two paying any rental, are they not?

Dr. GROVER. Chicago and Franconia at this point.

Mr. THOMAS. Some of the space they are in would rent for in excess of $1 a square foot though, Government-owned space. It looks to me like you have a ratio of 1, where you can really make up 3 to 1. That is not to be sneezed at. This is on space costs, but what about personnel costs?

SAVINGS IN PERSONNEL COSTS

Dr. GROVER. Because of the mass operation in the regional center, I think we will save 2 to 1 on personnel costs. I think we have proven that in the one national civilian center at St. Louis. We are handling records there——

Mr. THOMAS. Where is that worksheet on your centers other than the personnel center in St. Louis?

Mr. TURPIN. The justification on the record centers starts on page 190.

Mr. EVINS. The work load data is on page 190.

REFERENCE SERVICES

Mr. THOMAS. You show reference services. Under 1963 you have 1,760,000 which means just what you say, a reference? You are not measuring this in terms of cubic feet? You are measuring the number of individual requests for pieces of information?

Dr. GROVER. That is right.

Mr. THOMAS. What about your other centers? Where is that set out?

Dr. GROVER. All combined record centers it would be 3.1 million.

Mr. THOMAS. Do you set it out here for your others?

Dr. GROVER. Not for each center, but it is combined.

Mr. THOMAS. You have a figure here on references of 3,110,000, is that it?

Dr. GROVER. That is right.

Mr. THOMAS. How do you arrive at that figure?

Dr. GROVER. All 14?

Mr. THOMAS. What would you call a reference?

Dr. GROVER. The regional center reference is usually the loan of the record to the originating agency.

Mr. THOMAS. Let us take the one in Chicago. You are bound to have the information there, but how many people do you have in Chicago?

Dr. GROVER. Thirty-two, I believe.

Mr. BOUTIN. Twenty-eight in the records center.

Dr. GROVER. Twenty-eight, I am sorry.

Mr. THOMAS. How many references do you have in Chicago for 1962?

Dr. GROVER. I do not think I have that figure, Mr. Chairman.

Mr. THOMAS. That is about the only way you can figure comparable administrative costs, is it not?

Dr. GROVER. As between regional centers, that is the way we figure how each center is doing; that is right, but you cannot compare the reference service in the regional record centers on a cost basis with the reference service in the two national personnel record centers because they are of an entirely different kind, Mr. Chairman.

Mr. THOMAS. You have two different kinds of records in the first place?

Dr. GROVER. That is right.

Mr. THOMAS. Your people are not supposed to evaluate the information. All they are supposed to do is produce records but what is inside the records is something else. When you call one an apple and one a peach, I do not follow you there.

Dr. GROVER. So much of the reference service in St. Louis has to be handled by correspondence.

CHICAGO RECORDS CENTER

Mr. THOMAS. Let us go back to Chicago. How many people do you have there now?

Dr. GROVER. Twenty-eight.

Mr. THOMAS. How many references do you have a year there?

Dr. GROVER. I guess that that center will run about 400,000 a year.

Mr. THOMAS. How does that figure out on a daily basis for your 28 people?

Dr. GROVER. I can tell you what that is. We have a workload quota for these people. The average number of reference services in the regional centers per man-year is 12,000, a little better than 12,000.

Mr. THOMAS. About 1,000 a month?

Mr. GROVER. Yes, sir.

Mr. THOMAS. How many is that a day, Doctor?

Dr. GROVER. I am not as good a mathematician as you are, Mr. Chairman. I give up on that.

Mr. THOMAS. They are not overworked even according to your own figures, are they?

They go and pull out a file here and there and that is a reference?

Dr. GROVER. We certainly have improved their productivity in the last 10 years, Mr. Chairman, but overworked or not, when we started out it was running about 5,000 per man-year. We have it up to 12,300 and I hope that we can do even better.

RECORDS TO BE TRANSFERRED TO CENTERS

Mr. THOMAS. Are you not just about reaching your saturation point? Your figure is 3 million more cubic feet of records throughout the Government that need to be over in your custody?

Dr. GROVER. I think there are at least 1 million cubic feet right here in Washington that could go out to a center just as soon as we have the space for them.

Mr. THOMAS. Out at Franconia?

Dr. GROVER. Go into our proposed center.

AGENCIES SERVED IN WASHINGTON

Mr. THOMAS. Who is your big customer here in the District of Columbia?

Dr. GROVER. Our big customers nationwide are Defense and Treasury. They are about equal. In the regional centers, we have about 1.4 million Defense and 1.4 million Treasury.

Mr. THOMAS. You are not doing any business with the Veterans' Administration?

Dr. GROVER. They are about our fourth or fifth largest customer.

Mr. THOMAS. In each one of these record centers?

Dr. GROVER. Yes, sir. We are doing some business but not as much as we would like.

Mr. THOMAS. They are a little slow to give up those records?

Dr. GROVER. They claim they have problems with those records that occupy so much space, claim files. You have heard that story many times.

RECORDS DISPOSITIONS

Mr. THOMAS. Doctor, I am not going to say you are not putting your best foot forward, but you are overlooking one of your good points. Take your record space of one of the agencies in a period of 6 months, what happens to that cubic foot of record space?

Dr. GROVER. I think, if I understand what you are leading up to, one way of finding out whether some of these records are worth keeping or should be disposed of, is to get them into a records center and find out how much they are used.

Mr. THOMAS. That is what I am speaking about. What happens to that 1 cubic foot? Does it wind up in 6 or 8 months in one-third of a cubic foot?

Dr. GROVER. We dispose of around——

Mr. THOMAS. Half of it?

Do you dispose of a third or a fourth of it, or what is a good horseback opinion?

Dr. GROVER. It would be in those terms, less than a fourth. We bring in 725,000 cubic feet, and destroy 575,000 in a year.

Mr. JONAS. Would you yield?

Mr. THOMAS. Yes.

Mr. JONAS. How long back does the Internal Revenue Service keep income tax returns?

Dr. GROVER. Individual income tax returns for 6 years.

Mr. JONAS. Then they are destroyed?

Dr. GROVER. They are disposed of. Corporation tax returns are still being kept indefinitely. We are working with the Internal Revenue Service on those.

Mr. JONAS. Since I have interrupted you, Mr. Chairman, I think this paragraph dealing with actual operations on page 192 is right interesting showing how much space they have recovered.

What do you do with those records you take out of the filing cabinets you recover? Are they all destroyed?

Dr. GROVER. Ultimately most of them are destroyed, yes.

Mr. JONAS. You destroy them as soon as you have empty cases?

Dr. GROVER. We put them on shelves in the centers. We do not use filing cabinets in the centers except at St. Louis. Again, that is an exception. We put them in cardboard cartons and on shelves. That is cheaper. We stack them high, and that is how we get reduced space costs and much better space utilization really in the center than you would get in the office.

Mr. THOMAS. Is not Mr. Bean selling more cabinet files than he ever sold?

Mr. BOUTIN. He is selling a lot of them, Mr. Chairman.

Mr. THOMAS. We had better get Mr. Bean and the professor here together.

Mr. BOUTIN. We do get them together because the two things fit hand in glove.

Mr. THOMAS. He is saving all of these filing cabinets and Mr. Bean is buying more than he ever bought. What happens to them?

Mr. EVINS. Another agency turns them over to Mr. Barron.

Mr. BOUTIN. We rehabilitate a lot of filing cabinets. The productivity is 50 a day in the regular regional centers on references; 50 per person; per day.

Mr. THOMAS. Is that what it figures out to?

Mr. BOUTIN. Yes, sir.

SOCIAL SECURITY CASE FILES

Mr. OSTERTAG. Among the records you have under your Reference Service I see no listing of social security.

Dr. GROVER. They are in our regional records centers, social security case files by the millions.

Mr. OSTERTAG. I think that would be one of your large record items, would it not?

Dr. GROVER. Yes, sir.

Mr. OSTERTAG. Where does that show up in your chart on page 193?

Dr. GROVER. They would not be broken out. The chart on page 193 refers to the two national centers at St. Louis. The OASI records would show up in these records in the chart on page 191, record acces-

sions. In fact, part of the building up in record centers are the social security case files which have to be kept such a long period of time.

MAINTENANCE COSTS

Mr. THOMAS. Gentlemen, let us take a look at "Other objects" on page 196.

There is an item of $647,000 for rent and maintenance and record center space, and then reimbursable to the BM fund. You are only paying rent on two locations, aren't you? What are your maintenance costs? I see you have $647,000 and that is getting up into money.

Dr. GROVER. Well, it is 25 cents per square foot.

Mr. TURPIN. The maintenance costs on Government-owned space is 25 cents a square foot.

Mr. THOMAS. What is your national average?

Mr. TURPIN. Twenty-five cents.

Mr. THOMAS. Government-owned property?

Dr. GROVER. No; on our centers.

Mr. THOMAS. I understand what he said.

Mr. TURPIN. For warehouse-type space, but I will check that. I am not sure. For Government-owned office-type space it runs a a little over $1.

Mr. THOMAS. No; you used a figure of 52 cents.

Mr. BOUTIN. Fifty-two cents is an approximate figure of obsolescence that occurs.

Mr. THOMAS. No; that was your maintenance cost, not cleaning cost.

Mr. BOUTIN. I know the figure the chairman is referring to. Twenty-two cents is the figure we used in the R. & I. appropriation. That is the amount we charge per square foot per year.

Mr. THOMAS. Is that 22 cents a square foot?

Mr. BOUTIN. Twenty-two cents a square foot.

Mr. THOMAS. How can you charge 25 cents here for a records center? You do not spend 15 cents per square foot throughout these big record centers. Every time I go into one I cannot see where you moved a plank.

Mr. BOUTIN. Cleaning would be a factor here.

Mr. TURPIN. Cleaning and utilities, Mr. Chairman.

Dr. GROVER. The big cost is utilities.

Mr. TURPIN. On the records centers, we made an exact cost study of one here about 2 years ago and at that time it was running just about 24 or 25 cents. Actually, in the BM fund for costs, maintenance cost in warehouses and special-use type space, it runs 36 cents a foot.

Mr. THOMAS. What is included in that maintenance item?

Dr. GROVER. That is protection, cleaning, and electrical and heating.

Mr. THOMAS. You are covering two items and you set out what was the figure you used for cleaning for all of your buildings? What is it in Government-owned space and otherwise per square foot?

Mr. BOUTIN. 33.4 cents. No—I am wrong.

Mr. THOMAS. I do not think it was that high.

Did you say 31 cents? What was the figure you used for maintenance and repairs?

Mr. BOUTIN. Maintenance and repairs is 22 cents.

Mr. THOMAS. That is only 53 cents for all of your buildings, the big ones, the little ones, and every kind, but then you are coming here with a simple figure for your record centers and what was the figure you used, 35 cents?

Mr. TURPIN. Thirty-six cents. The 31 cents you referred to on all buildings, including office type and everything, was just the cleaning.

Mr. THOMAS. That is right.

Mr. TURPIN. We are talking about maintenance in this charge of 25 cents for the record centers, our 36 cents covers all types of warehouses, special-use space, and we are talking about cleaning, utilities, heating, and all services of that type.

Mr. THOMAS. What would it be for an office building for all of the same services?

Mr. TURPIN. The average for all of them is just under $1; 99 cents.

Mr. THOMAS. What does it include, cleaning?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Utilities?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Guard service?

Mr. TURPIN. Right, sir.

Mr. THOMAS. Cleaning, patching up and repairs?

Mr. TURPIN. No, sir. It does not include repairs.

Mr. THOMAS. What is that figure?

Mr. TURPIN. Twenty-two cents.

Mr. THOMAS. Additional?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. What would it be altogether?

Mr. TURPIN. $1.21 including those day to day maintenance repairs.

Mr. THOMAS. In the same items for your Record Centers, it costs you what, 37 or 36 cents?

Mr. TURPIN. 25 cents, sir. That does not include any repairs. It is 25 cents which includes cleaning, utilities, heat, electricity, and protection.

Mr. THOMAS. No repairs?

Mr. TURPIN. No, sir.

Mr. THOMAS. You gave us a figure awhile ago of 36 cents?

Mr. TURPIN. Yes, sir. Twenty-five cents is just for the Records Centers. The 36-cent figure I gave you was the average for all of the warehouse type and special-use type space we had. One reason the Records Centers are lower is because of the nature of their operations. They require less cleaning by the "BM" building management force.

Dr. GROVER. That is the main reason it is cheaper.

Mr. BOUTIN. Less power is required as compared to FSS.

Mr. THOMAS. As to the remainder of your "Other Objects," you have $140,000 for motor pool and commercial transportation of records, accessioning, and other commercial transportation; $70,000 for communications services; $50,000 for printing records management handbooks and guides and for reproducing administrative regulations, manuals and forms.

TRANSPORTATION OF RECORDS

What is this $140,000 for motor pool and commercial transportation of records? Do you pay for taking them from the originating agencies and transporting them to your warehouses and your Records Centers or do the agencies pay for that?

Dr. GROVER. The agencies usually pay for that. We have done it in the case of some big moves.

Mr. THOMAS. What do you charge for that?

Dr. GROVER. About $100,000 of that motor pool cost, Mr. Chairman, is the cost of motor pool vehicles used in the reference service; messengers back and forth to the departments and agencies.

Mr. THOMAS. How does that operate? Do you take care of it by the month?

Dr. GROVER. Yes, sir.

Mr. THOMAS. What does it cost a month? How many cars do you have assigned to the Chicago Record Center alone on a monthly basis?

Dr. GROVER. Not more than one to any center.

Mr. THOMAS. How does that run up to $140,000?

Dr. GROVER. This is St. Louis, so that would be——

Mr. THOMAS. Let us say 17 or 18 automobiles, if you want to do that, but how do you get $140,000 out of it?

Dr. GROVER. I only get about $100,000 for that, and about $40,000 for commercial transportation.

Mr. THOMAS. In addition?

Dr. GROVER. Yes, sir; in addition to that. This commercial transportation would be where we are moving records of ours from one place to another. For example, we just moved from the Washington Center all of the Coast Guard service records of Coast Guard personnel out to St. Louis.

Mr. THOMAS. You do not have a move like that but every once in 10 years?

Dr. GROVER. We have quite a few moves like that, Mr. Chairman.

Mr. THOMAS. This item can be reduced at least 50 percent without hurting anything or anybody, can it not?

Dr. GROVER. I do not think so.

COMMUNICATIONS COSTS—RECORDS CENTERS

Mr. THOMAS. What about your $70,000 for communications services?

Dr. GROVER. The big user, there again, is St. Louis, which has a teletype operation of the kind Mr. Evins was talking about. It runs $15,000 a year and about $35,000 for other communications costs, right from those two centers. The rest of it is divided all over the country.

Mr. THOMAS. You mean your communications in St. Louis costs $50,000?

Dr. GROVER. About $45,000. I meant $30,000.

Mr. THOMAS. Your teletype item is $15,000 and why the other $30,000?

Dr. GROVER. The other $30,000 would be telephone bills prorated to us.

Mr. ROBERTSON. That is correct—$30,000 for telephone and $15,000 for teletype.

Mr. THOMAS. Those records do a lot of talking.

How many people do you have out there?

Dr. GROVER. 816 in both centers.

Mr. JONAS. Why would you do that much telephoning? What kind of conversations would you have?

Dr. GROVER. There are a lot of extension phones the same as here in the National Archives Building, where you have extensions to avoid people running back and forth and covering a lot of space and wasting a lot of time.

Mr. JONAS. I can see why a lot of agencies would be calling you but I do not see much necessity of your calling all over the Government. They do not call you collect, do they?

Dr. GROVER. No; we have to have a telephone to take the calls.

Mr. BOUTIN. Many times you have to furnish the answers to the inquiries you get. That is a fact.

Mr. THOMAS. Not by telephone.

Mr. JONAS. You can do that with a 5-cent stamp.

Dr. GROVER. This St. Louis center does one kind of telephone business that does result in some some cost every time a veteran dies because they cannot do a thing about burial or a gravestone until they check his service in St. Louis. That is frequently handled on the telephone.

Mr. THOMAS. What about this communications item?

Dr. GROVER. I do not know what that costs. On the teletype I do not know.

MOVEMENT OF RECORDS

Mr. BOUTIN. Mr. Chairman, I would like to go back if I might to this "Motor pool and commercial transportation" item. I do not think, in deference to the good doctor, that we built a good record on this thing. We need to have funds where we can move to free up space and to accommodate records and to get like records in the same space, to have flexibility to move these records around.

We do move a lot of records when we take over records in block. We are working right now in Denver with an agency to take over 20,000 cubic feet and to move those records. We are just wasting a lot of money by leaving them where they are in office space.

Mr. EVINS. This would be commercial van trucking companies, I suppose?

Mr. BOUTIN. Largely that; yes, sir.

PRINTING COSTS—RECORDS CENTERS

Mr. EVINS. You have $50,000 for printing records management handbooks and guides, and for reproducing administrative regulations, manuals, and forms.

The people already in Government agencies are informed and you do not have to give them any more informational books, do you?

Dr. GROVER. I wish the people in Government agencies were completely informed, Mr. Chairman.

Mr. BOUTIN. The fact of the matter is that there is not a day that goes by we do not receive a request from some agency, in addition to what we generate on our own, for help in this area. Our people are

constantly putting out new records management handbooks, and developing new records management systems. We do a lot of work for Members of Congress. We come up here and set up a bookkeeping system or a records system for them.

Some of the new Senators and Congressmen in this session right now are having work done.

How many are we doing work for, eight or ten at least now?

Dr. GROVER. Eight or ten right now.

Mr. EVINS. $50,000 is a pretty expensive item to inform them, is it not?

Mr. BOUTIN. Here are some samples of the type of pamphlets they put out.

OTHER SERVICES

Mr. THOMAS. What is this $170,000 item for "Other Services" including erection of records center shelving, health room sevices, security guarding, employee security clearances, and equipment and building repairs furnished by FSS and PBS?

Dr. GROVER. I can give you a breakdown on that, if you would like.

Mr. THOMAS. Yes, let us have it, Doctor.

Dr. GROVER. $30,000 of that $170,000 is for security guarding mainly here at region 3 where we still have a great many highly classified records of the Department of Defense. We have to pay for this.

Mr. THOMAS. Out at Franconia?

Dr. GROVER. They are mainly on the waterfront down at Alexandria. $60,000 is for shelving erection throughout the country.

Mr. THOMAS. Is that an annual cost?

Dr. GROVER. It will run about that, yes, sir.

Mr. THOMAS. You have steel shelves up to the ceiling, 8 or 10 feet high. What does that cost per square foot or per cubic foot?

Dr. GROVER. To erect it costs about——

Mr. THOMAS. It is simple enough to erect it. It comes ready to be put up.

Dr. GROVER. That is right. It costs 20 to 30 cents per cubic foot to erect.

Mr. THOMAS. We have to buy more every year, is that right?

Dr. GROVER. Yes, we have to buy a little more every year.

Mr. THOMAS. Go ahead.

HEALTH ROOM SERVICES

Dr. GROVER. $20,000 is for health room services at St. Louis and the only other one in region 3.

Mr. THOMAS. What do you mean by health room services?

Mr. ROBERTSON. That is the service rendered by the Public Health Service where there are 150 or more employees.

Mr. THOMAS. That is a transfer item?

Mr. ROBERTSON. Yes.

Mr. THOMAS. They furnish the nurse and you pay them?

Mr. ROBERTSON. That is correct.

Mr. THOMAS. What do you pay there?

Mr. ROBERTSON. $16,000 in St. Louis and in region 3 it is $4,000.

Mr. THOMAS. What is the regulation? Is it where you have as many as 150 employees under one roof?

Mr. ROBERTSON. Yes

SUPPLIES AND MATERIALS

Mr. THOMAS. You have $190,000 for records center program supplies, including cardboard containers for new accessions and photographic supplies for reproduction services; and $35,000 for miscellaneous and administrative supplies and materials.

What is that?

Mr. BOUTIN. The big item there is for your cardboard containers.

Dr. GROVER. That is right. The boxes cost about $80,000 a year.

Mr. THOMAS. I remember seeing stacks and stacks of boxes we took over from the armed services. What became of them?

Dr. GROVER. We used those 5 years ago. Those boxes you probably saw in San Francisco we put to very good use.

Mr. THOMAS. Where are they now?

Dr. GROVER. Probably most were sold as waste paper with the records. It is cheaper to do that because the cardboard boxes cost 11 cents apiece and they go with the records as waste paper. They wear out rapidly.

Mr. THOMAS. Do they?

Dr. GROVER. Certainly; when you pull them back and forth. So by the time the records are ready to go they go too.

Mr. THOMAS. They all go together?

Dr. GROVER. That is right.

FURNITURE, EQUIPMENT, AND SHELVING

Mr. THOMAS. You have $50,000 for records center equipment including skids, dollies, and ladders, and for replacement of office furniture and equipment.

Then you have $125,000 for capital investment in records center shelving. You have that shelving in here twice.

Mr. BOUTIN. One is for erection and one is for the equipment itself, Mr. Chairman.

Mr. THOMAS. It will not cost you $125,000 to erect them?

Mr. BOUTIN. No. That is to buy the shelving.

Mr. THOMAS. We had an item above of $35,000 for this.

Dr. GROVER. That was to put the shelving together, to erect it in the center; $125,000 pays for the cost of the steel shelving.

Mr. THOMAS. With all your people there can't they take these prefabricated shelves and put them together? Do you have to spend $35,000 to erect them?

Dr. GROVER. As I recall we spent $60,000 for that.

Mr. THOMAS. The total for "Other objects" is $2,160,000 this year. What did it cost in 1961 and 1962?

Dr. GROVER. About the same, Mr. Chairman. It is $2,140,000 in 1963 and $2,160,000 in 1964.

SUMMARY COSTS OF RECORDS CENTERS

Mr. THOMAS. Out of a total cost of $10 million, is that what your records centers are costing you?

Mr. TURPIN. $9,888,000.

Mr. THOMAS. And you are spending $2.1 million for "Other objects"?

Mr. TURPIN. That is correct, including $600,000 for the personnel benefits.

Mr. THOMAS. Not salaries but benefits?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Take out the benefits. What does that leave?

Mr. TURPIN. That leaves $1,560,000.

Mr. THOMAS. From $10 million. It should not be more than 7 or 8 percent for a warehouse operation.

Dr. GROVER. This is not a warehouse operation. It is a cross between an office and a warehouse and I think these "Other objects" costs are reasonable based on our experience. We try to keep them down.

PREVIOUS COSTS FOR RECORDS CENTERS

Mr. EVINS. The biggest part of Government work is paperwork, Mr. Chairman. I did want to ask what the total overall cost of this operation had been over the past 5 years. It is about $10 million now. What was it the year before and the year before that?

Dr. GROVER. It has been about the same. We have taken over activities from the Defense Department. That has increased it considerably. In 1958 and 1961 we took some over.

Mr. EVINS. What have the appropriations been over the past 4 or 5 years? Can you give us a table?

Dr. GROVER. Can we insert that in the record?

Mr. EVINS. Yes.

Mr. BOUTIN. I think I can give you something that would be helpful. Since 1952 the cubic feet of record accession per man-year increased from 4,188 to 8,535. References per man-year went from 3,393 in 1953 to 12,874 in 1963. Cubic feet of records disposed of went from 5,900 to 8,900.

Mr. EVINS. We are impressed with the work. I just had in mind the dollar figures.

Mr. TURPIN. We can supply that for the record.

(The information supplied follows:)

Records management and centers—Total operating cost

1964 (estimate)	$9,888,000
1963 (estimate)	9,603,400
1962	9,324,399
1961	9,656,853
1960	9,255,273

ARCHIVES AND RELATED SERVICES

Mr. EVINS. The next item is "Archives and related services." For 1963 you had $3,598,400. For next year you are asking $3,765,000, an increase of $166,600. Insert pages 198, 199,, and 200 in the record.

(The pages referred to follow:)

2. Archives and relateds ervices

	Amount	Average employment		
		Department	Field	Total
1963	$3,598,400	408	39	447
Change	+166,600	+2	+1	+3
1964	3,765,000	410	40	450

HIGHLIGHT

"The permanently valuable records of the Government are selected, arranged, cataloged, preserved, and serviced in the Archives of the United States. Related services consist of (*a*) publication of the Federal Register and related compilations and the U.S. Statutes at Large; (*b*) preservation and servicing of historical materials in Presidential libraries; and (*c*) servicing the National Historical Publications Commission." (From the budget for 1964.)

Summary of performance cost

	1962	1963	1964
(*a*) National Archives	$2,713,731	$2,811,900	$2,900,200
(*b*) Federal Register	400,370	420,500	454,000
(*c*) Presidential libraries	294,297	366,000	410,800
Total cost or estimate	3,408,398	3,598,400	3,765,000

JUSTIFICATION

(*a*) *National Archives*

Permanently valuable records of the Government are selected, arranged, cataloged, preserved, and made available for use. Although workload is increasing no additional positions are requested for 1964. Workload items and cost of the program are set forth below.

	1962	1963	1964
(1) Agency appraisal audits:			
Number of records series appraised	4,923	----------	----------
Number of agency appraisal audits	----------	60	60
Cost or estimate	$139,250	$195,000	$200,000
(2) Preservation and reproduction:			
Pages flattened	859,139	900,000	900,000
Pages laminated	114,478	115,000	115,000
Pages microfilmed	6,667,000	7,000,000	7,000,000
Cost or estimate	$475,878	$492,000	$505,000
(3) Arrangement and finding aids:			
Items arranged	1,354,277	1,400,000	1,400,000
Finding aid entries	45,736	46,000	46,000
Cost or estimate	$745,400	$765,000	$786,000
(4) Reference:			
Number of reference services	518,503	530,000	550,000
Cost or estimate	$1,276,960	$1,279,900	$1,327,200
(5) National Historical Publications Commission	$77,243	$80,000	$82,000
Total cost or estimate	$2,713,731	$2,811,900	$2,900,200

(1) *Agency appraisal audits.*—The appraisal staff, in addition to appraising records recommended for disposal, audits and reviews the disposition program of Federal agencies and develops plans for each agency for the selective retention of its records. Identification of records of archival value is necessary to permit prompt and orderly disposal of records of temporary value.

(2) *Preservation.*—The program for repairing or filming records which are deteriorating will increase slightly in 1963 and 1964 without any increase in

staff. The quantity of material that requires repair before it can be used is being reduced gradually.

(3) *Arrangement and finding aids.*—The continuous workload of achieving control of records in the National Archives by putting them in better order and by providing guides, inventories and other finding aids necessary to their use will continue at the 1962 and 1963 levels. Special emphasis will be placed on records relating to the Civil War, State Department dispatches and correspondence, and the large volume of still-picture holdings.

(4) *Reference.*—It is estimated that the demand for reference service on records will continue to increase through 1964. The increased services will be performed without any increase in staff.

(5) *National Historical Publications Commission.*—The NHPC encourages, cooperates with, and gives limited assistance to organizations outside the Government now preparing for publication the papers of early American leaders, including Benjamin Franklin, John Adams, John Quincy Adams, James Madison, Alexander Hamilton, and Thomas Jefferson. These organizations are financed by private grants.

The Commission also compiles an annual bibliography of "Writings on American History" and general guides to archives and manuscripts in the United States. Its program is based on the report "A National Program for the Publication of Historical Documents," which has been endorsed by both the President and the Congress (S. Con. Res. 31, 85th Cong.).

(b) Federal Register

The daily Federal Register, the annual supplements to the Code of Federal Regulations, the annual U.S. Government Organization Manual, the daily slip laws, the U.S. Statutes at Large, and the annual compilation of Presidential messages and papers are published within fixed deadlines. These are continuous services. Backlogs cannot be permitted in the publication of current laws or current regulations having the force of law.

The increase of 2 positions in 1964 over 1963 provides further conversion from letterpress printing, which requires typesetting, to offset photographic reproduction in the printing of the Code of Federal Regulations. This improvement in printing technique reduces GPO costs considerably and permits publication of each volume 60 to 90 days earlier.

	1962	1963	1964
Workload data:			
Number of pages prepared for publication	43,286	44,500	46,500
Information services	17,749	18,000	18,000
Publications (pages):			
Federal Register	13,635	15,000	15,500
Code of Federal Regulations	24,290	23,500	25,000
(a) By letterpress	(19,846)	(19,000)	(18,500)
(b) By photo offset	(4,444)	(4,500)	(6,500)
U.S. Government Organization Manual	821	850	850
Slip laws	1,368	1,500	1,500
U.S. statutes	1,514	1,350	1,350
Presidential messages and papers	1,658	2,300	2,300
Total number of pages	43,286	44,500	46,500

(c) Presidential libraries

Manuscripts, books, prints, films, and other historical materials received from former Presidents Franklin D. Roosevelt, Harry S. Truman, Dwight D. Eisenhower, and Herbert Hoover, or acquired from their contemporaries, are cataloged, preserved, and serviced at the respective libraries.

	1962	1963	1964
Roosevelt Library	$112,881	$112,300	$117,000
Truman Library	94,450	108,500	112,400
Eisenhower Library	58,288	83,000	96,000
Hoover Library	28,678	62,200	85,400
Total cost or estimate	294,297	366,000	410,800

The Eisenhower Library was dedicated May 1, 1962, and the Hoover Library August 10, 1962. Exhibit rooms of both libraries are open to the public, and the Presidential papers are being processed prior to the opening of unrestricted materials for public research. It is estimated that public visitors to the exhibit rooms of all libraries will increase from a current annual rate of 375,000 to about 425,000 in 1964. Significant data applicable to the Roosevelt and Truman Libraries follows:

	Roosevelt	Truman
Holdings:		
Pages of manuscript	20,000,000	15,200,000
Volumes	30,000	27,000
Other printed items	43,000	28,000
Still pictures	74,000	8,000
Museum objects	20,000	7,000
Reference services (number)	1,100	1,200
Items furnished to searchers	7,400	7,300
Reproductions of manuscripts and photographs	16,500	11,800

Manuscripts, books, and other documentary materials have been moved into the Eisenhower and Hoover Libraries. These materials are being identified, arranged, boxed, and shelved, but statistical data are still incomplete.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $3,078,400 for 469 permanent positions (450 average employment), distributed as follows:

	1962			1963			1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
(a) National Archives	374.0	----	374.0	374	----	374	374	----	374
(b) Federal Register	52.0	----	52.0	52	----	52	54	----	54
(c) Presidential libraries	----	36	36.0	----	39	39	----	41	41
Total positions	426.0	36	462.0	426	39	465	428	41	469
Average employment	403.4	33	436.4	408	39	447	410	40	450

Other objects: $686,000 provides:

(1) $233,100 for personnel benefits, including contribution to retirement funds; health benefits; group insurance; FICA; and awards under incentive awards program.

(2) $123,000 for program contractual services, including security guarding, and microfilming and electrostatic reproduction contracts.

The remainder of $330,500 or 8.8 percent of total estimate, provides:

(3) $12,000 for 444 day's travel at $27 per day and $1,500 for motor pool services.

(4) $15,000 transportation for accessioning records and transportation of miscellaneous items by commercial carrier and by motor pool vehicles.

(5) $56,200 communication services.

(6) $40,000 for printing guides and other finding aids to records in the National Archives, and reproduction of regulations, administrative issuances, forms, and similar materials.

(7) $94,000 for program supplies, including cardboard document containers, document restoration supplies, and photographic supplies and materials; and $14,000 for administrative supplies and materials.

(8) $40,000 for preservation, photographic and administrative equipment.

(9) $57,800 for equipment repairs and rentals, health room services, personnel security clearances, and building maintenance work orders payable to the BM fund.

Mr. Evins (reading):

The permanently valuable records of the Government are selected, arranged, cataloged, preserved, and serviced in the Archives of the United States. Related services consist of (*a*) publication of the Federal Register and related compilations and the United States Statutes at Large, (*b*) preservation and servicing of historical materials in Presidential libraries, and (c) servicing the National Historical Publications Commission.

NATIONAL HISTORICAL PUBLICATIONS COMMISSION

Tell us a little about that last one, servicing the National Historical Publications Commission.

Dr. Grover. The National Historical Publications Commission is established by law with representatives of the three branches of the Government on it—Congressman Miller serves for the House—with two appointees of the President and two people designated by the American Historical Association. It has a membership of 12. Its function is to encourage documentary publications relating to American history.

Among the major projects they are working on right now are the publication of the Jefferson papers at Princeton; the Hamilton papers at Columbia; the Adams papers by the Massachusetts Historical Society and Harvard; and the papers of Benjamin Franklin sponsored by Yale University and the American Philosophical Society. In addition, it prepares an annual bibliography published by the authority of Congress by the Government Printing Office.

Mr. Evins. That is privately financed?

Dr. Grover. The big projects are privately financed. One is being financed by the Ford Foundation.

Mr. Evins. When you use private funds are there strings to it?

Dr. Grover. Yes. For example, money donated by a foundation for publication of the Jefferson papers would have to be used for that purpose.

FEDERAL REGISTER

Mr. Evins. In your summary of performance cost you show an increase from $2.8 million in 1963 to $2.9 million in 1964. For the Federal Register you show an increase for $420,500 in 1963 to $454,000 in 1964.

Would not the sales of the Federal Register ordinarily take care of the cost; the sales to the public and the lawyers that want to see the official orders? How much do you get from the sale of the publication?

Dr. Grover. Those publications are sold by the Government Printing Office and the receipts are turned over to the Treasury. In 1963 the receipts were $346,000.

PRESIDENTIAL LIBRARIES

Mr. Evins. Do you need more guards for the Presidential libraries?

Mr. Boutin. I think we definitely need an improvement in our guarding service. Gifts have been made to former Presidents, and the libraries are almost all in outlying districts. We are making a study of it now. One of the things we will have to do is improve our guarding service, and we will have to arm our guards. We are not

doing that now. We put a watchman in a building with no protection at all. We are also looking into the possibility of using dogs. But we do want to improve the quality of protection we are giving these libraries.

Mr. EVINS. For "Other objects" you are asking for $686,600; $233,000 is for personnel benefits; $123,000 is for program contractual services. What are those, Doctor, contractual services?

CONTRACT MICROFILMING

Dr. GROVER. We are doing some contract microfilming.

Mr. EVINS. Do you not have the equipment to do that yourself?

Dr. GROVER. We do have some microfilming equipment and we do some ourselves but this refers to the microfilming of the German records the Administrator was talking about a moment ago.

Mr. EVINS. Once you have done the microfilming then you can preserve them and save a lot of space by disposing of the original records. How much space are you saving on this operation?

Dr. GROVER. On this operation, the German records we are filming will be going back to the German Government, the original records. We do not do enough microfilming to save any appreciable amount. The microfilming we do is microfilming for publication and microfilming used in lieu of laminating the documents.

Mr. EVINS. Off the record.

(Discussion off the record.)

Mr. BOUTIN. We came in last year with a request for an appropriation for a microfilming project. We are now reevaluating the whole thing to try to put a dollar fix on what benefit we would get from a real big microfilming project to save space. As I said in my opening statement, we have two new Presidential libraries in operation, the Eisenhower and Hoover Libraries.

OTHER OBJECTS—ARCHIVES

Mr. EVINS. You have $12,000 for 444 days of travel at $27 per day and $1,500 for motor pool services.

You have $15,000 transportation for accessioning records and transportation of miscellaneous items by commercial carrier and by motor pool vehicles. We discussed that earlier. Is that covered twice?

Dr. GROVER. No; this is in the National Archives and Presidential libraries.

Mr. EVINS. $56,200 for communication services; $40,000 for printing guides and other materials.

Doctor, when we want to get a copy of the Declaration of Independence or the Bill of Rights you sell them. What do you get from those sales?

Dr. GROVER. The cost of printing is paid out of a revolving fund and the sales have to come back to keep the fund revolving. That is in this $400,000 trust fund account.

Mr. EVINS. There would not be enough from the sales to have them run off on mimeograph machines?

Dr. GROVER. They are not run on mimeograph machines. They are excellent facsimiles.

Mr. BOUTIN. The cost is about $20,000 a year.

Mr. EVINS. $94,000 is for program supplies, including cardboard document containers, document restoration supplies, and photographic supplies and materials; $14,000 for administrative supplies and materials; and $40,000 is for preservation, photographic and administrative equipment. What is that item?

Dr. GROVER. That is in the National Archives, mostly. I can give you a list of what that will buy, if you like.

Mr. EVINS. $57,800 is for equipment repairs and rentals, health room services, personnel security clearances, and building maintenance work orders payable to the BM fund.

Any questions on this?

SERVICE DIRECTION, NATIONAL ARCHIVES

You are asking for an increase of $71,800 for "Service direction." You are asking for $613,000 for 1964 and you had $541,200 in 1963. Why is this necessary? Give us a few words in justification.

Dr. GROVER. $55,000 of that requested increase, Mr. Chairman, is for the increase in postage cost and the rest is for the salary increase.

Mr. EVINS. Thank you very much, gentlemen.

TRANSPORTATION AND COMMUNICATIONS SERVICE, GENERAL SERVICES ADMINISTRATION

WITNESSES

ROBERT B. CONRAD, COMMISSIONER
MALCOLM D. MILLER, DEPUTY COMMISSIONER
JOHN W. FLATLEY, ASSISTANT COMMISSIONER FOR TRANSPORTATION
ANDREW HORNER, ASSISTANT COMMISSIONER FOR COMMUNICATIONS

OPERATING EXPENSES, TRANSPORTATION AND COMMUNICATIONS SERVICES

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	2,523	3,244	4,047
	Positions other than permanent	6	2	
	Other personnel compensation	9		31
	Total personnel compensation	2,538	3,245	4,078
12	Personnel benefits	187	243	306
21	Travel and transportation of persons	62	99	186
	Payment to interagency motor pools	6	15	20
22	Transportation of things	3	3	7
23	Rent, communications, and utilities	60	75	97
24	Printing and reproduction	47	100	79
25	Other services	24	26	133
	Payment to "Administrative operations fund"	546	623	811
	Services of other agencies	10	12	20
26	Supplies and materials	42	42	52
31	Equipment	282	134	81
	Total obligations	3,807	4,617	5,870

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	342	394	475
Full-time equivalent of other positions	1		
Average number of all employees	316	376	447
Number of employees at end of year	344	394	475
Average GS grade	9.2	9.5	9.7
Average GS salary	$8,043	$8,837	$8,823

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Transportation services	1,694	1,842	2,141
2. Communication services	785	1,413	1,860
3. Motor vehicle management	223	281	320
4. Public utilities services	128	128	171
5. Service direction	175	374	519
6. Administrative operations	546	623	811
Total program costs, funded [1]	3,551	4,660	5,822
Change in selected resources [2]	256	−43	48
Total obligations	3,807	4,617	5,870
Financing:			
Unobligated balance lapsing	153		
New obligational authority	3,960	4,617	5,870
New obligational authority:			
Appropriation	0	4,097	5,870
Transferred (5 U.S.C. 630d) from—			
"Expenses, Federal Telecommunications System"	850		
"Operating expenses, Public Buildings Service"	503		
"Operating expenses, Federal Supply Service"	284	320	
"Operating expenses, Transportation and Public Utilities Service"	2,386		
Transferred to "Expenses, Supply Distribution" (75 Stat. 353) (−)	−63		
Appropriation (adjusted)	3,960	4,417	5,870
Proposed supplemental due to pay increases		200	

[1] Includes capital outlay as follows: 1962, $38,000; 1963, $70,000; 1964, $55,000.
[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $13,000 (1962 adjustments, −$8,000); 1962, $261,000; 1963, $218,000; 1964, $266,000.

Mr. EVINS. We will now take up the Transportation and Communications Service.

Place in the record pages 207, 208, and 209.

(The pages follow:)

FUNCTIONS PERFORMED BY THE TRANSPORTATION AND COMMUNICATIONS SERVICE

This Service is responsible for improving management practices and providing services in the fields of transportation, communications, and other public utilities for all civilian agencies; protecting the Government's interest in rate-change cases before regulatory bodies; planning and operating an integrated civilian agencies' telecommunication system encompassing national defense uses, compatible with Defense Department systems; developing Government-wide policies and procedures for improving the overall efficiency of the operation of the Government-owned motor vehicle fleet, and operating interagency motor vehicle pools in areas of high Government vehicle density.

In addition to servicing programs assigned to GSA under Public Law 152, as amended, the Transportation and Communications Service renders transportation services, on a reimbursable basis, to the Department of Agriculture in connection with their responsibilities under the Agricultural Trade Development and Assistance Act of 1954; the Office of Emergency Planning for activities

under the Defense Production Act of 1950, as amended; and the Department of Health, Education, and Welfare and the Department of Defense with reference to transportation of medical supplies, hospital units, radiological equipment, and survival supplies.

The services rendered these reimbursable programs include the negotiation of contracts, rating and routing of shipments, issuance of shipping instructions and related shipping documents, and processing of transportation loss and damage claims.

Summary of new obligational authority and average employment

	New obligational authority		Average employment					
			Total		Central office		Field	
	1963	1964	1963	1964	1963	1964	1963	1964
A. NEW OBLIGATIONAL AUTHORITY AND RELATED EMPLOYMENT								
Operating expenses, TCS:								
1. Transportation services	$1,840,000	$2,146,000	194.5	214.5	69.2	76.5	125.3	138.0
2. Communication services	1,374,000	1,900,000	116.8	150.2	79.8	94.6	37.0	55.6
3. Motor vehicle management	281,000	320,000	25.4	27.4	12.9	12.9	12.5	14.5
4. Public utilities services	125,000	173,000	10.9	15.2	10.9	15.2	.....	.....
5. Service direction	374,000	520,000	28.5	39.8	21.1	21.9	7.4	17.9
6. Administrative operations	623,000	811,000	.....	.....	.....	.....	.....	.....
Total NOA, subtotal employment	4,617,000	5,870,000	376.1	447.1	193.9	221.1	182.2	226.0
B. OTHER EMPLOYMENT								
Revolving funds:								
Buildings management fund [1]	.....	.....	1,432.3	1,762.4	.....	.....	1,432.3	1,762.4
General supply fund [2]	(3)	(3)	526.0	529.9	15.1	15.4	510.9	514.5
DPA revolving fund			7.5	5.0	2.5	.....	5.0	5.0
Reimbursements: Operating expenses, TCS	.....	.....	1.4	.4	1.0	.....	.4	.4
Transfers:								
Acquisition of materials (CCC)	.....	.....	17.0	17.0	11.0	11.0	6.0	6.0
Consolidated working fund (OEP)	.....	.....	4.0	4.0	4.0	4.0	.....	.....
Subtotal, other employment	.....	.....	1,988.2	2,318.7	33.6	30.4	1,954.6	2,288.3
Total employment	.....	.....	2,364.3	2,765.8	227.5	251.5	2,136.8	2,514.3

[1] Represents employment involved in communications operations financed directly by the buildings management fund, organizationally responsible to the Transportation and Communications Service.

[2] Represents employment involved in motor-pool operations financed directly by the general supply fund, organizationally responsible to the Transportation and Communications Service.

[3] Funds available not considered NOA in budget schedules.

Summary reconciliation of 1964 estimate to comparable amounts for 1963

1963:	
Appropriation in annual act	$4,097,000
Transfer from "Operating expenses, FSS"	320,000
Proposed supplemental due to pay increase	200,000
Comparative total for 1963	4,617,000
Increases in 1964:	
Transportation operational services	234,000
Support for expanded Federal telecommunications system	302,000
Research and development to achieve engineering objectives for the ultimate Federal telecommunications system	150,000
Further negotiation of areawide and special utility contracts, review of rates and agency utilization practices	40,000
Regional supervision of all TCS programs	113,000
Miscellaneous minor increases including postage fees	34,000
Administrative operations in support of expanded programs	160,000
Mandatory increases attributable to the Federal Salary Reform Act of 1962	220,000
Total	1,253,000
1964 estimate	5,870,000

Analysis by activities

Activities	1963 adjusted	Increases	1964 estimate
1. Transportation services	$1,840,000	$306,000	$2,146,000
2. Communication services	1,374,000	526,000	1,900,000
3. Motor vehicle management	281,000	39,000	320,000
4. Public utilities service	125,000	48,000	173,000
5. Service direction	374,000	146,000	520,000
6. Administrative operations	623,000	188,000	811,000
Total obligations	4,617,000	1,253,000	5,870,000

Mr. EVINS (reading):

This Service is responsible for improving management practices and providing services in the fields of transportation, communications, and other public utilities for all civilian agencies; protecting the Government's interest in rate-change cases before regulatory bodies; planning and operating an integrated civilian agencies' telecommunication system encompassing national defense uses, compatible with Defense Department systems; developing Government-wide policies and procedures for improving the overall efficiency of the operation of the Government-owned motor vehicle fleet, and operating interagency motor vehicle pools in areas of high Government vehicle density.

I did not know the motor vehicle fleet was in there.

Mr. THOMAS. We have one new function, telecommunication. You have a new Commissioner.

Mr. EVINS. Mr. Commissioner, how long have you been with the General Services Administration?

Mr. CONRAD. I became Commissioner on September 18, 1961.

Mr. EVINS. What were you doing before that time?

Mr. CONRAD. I was a practicing attorney in Nebraska.

Mr. BOUTIN. Bob is not telling the whole story. He was Administrative Assistant to Governor Brook out there, who was taken ill shortly after his inauguration, and Bob really served the State of Nebraska for the Governor for about 2 years. He reported to the people every Sunday afternoon on television, met with the depart-

ment and agency heads of the State, and traveled all over. Bob has had some good experience.

Mr. EVINS. That sounds very good.

INCREASES IN ESTIMATES FOR 1964

Mr. Administrator, just looking at your table on page 209, in 1963 you had $4,617,000 and for 1964 you are asking for $5,870,000. The increases are: Transportation operational services, $234,000; support for expanded Federal telecommunications system, $302,000; and so on. Why do you not go down the list and explain these and tell us why they are necessary and tell us about some of the big cases you have had recently that have been in the news. We will be glad to listen to you.

Mr. CONRAD. The $234,000 indicated in the transportation operational services is attributable to the need we have for 29 additional positions in the Office of Transportation, in the 10 regional offices, and 9 in the central office to support the expanded FSS supply program, the accelerated stockpile disposal program, and the anticipated increase in loss and damage claims.

The $302,000 is to provide additional personnel in order to proceed with the many phases of development, engineering, and activation of the various modes of communications which will constitute the ultimate advanced Federal telecommunications system and to accomplish this within the currently planned time frame, which has been accelerated over that which we had a year ago.

The $150,000 for research and development is for the purchase of electronic test equipment, and for the testing and evaluation of varied types of data, teletypewriter, facsimile terminal equipment, and analog to digital conversion devices to assure that they will operate efficiently in the ultimate Federal telecommunications system.

The $40,000 for further negotiation of areawide and special utility contracts, and review of rates and agency utilization practices, provides for a modest increase of 5 positions, some of which would be for qualified college graduates who would be trained in this field.

REGIONAL SUPERVISION

The $113,000 for regional supervision of the transportation and communications service will provide the much needed top-level coordination of the varied programs in each regional office, and will be consistent with the regional management of other GSA activities.

Mr. THOMAS. Doctor, you are really spreading your wings. You have not had all this set up before, have you?

Mr. CONRAD. That is correct.

Mr. THOMAS. Why do you have to go out in all these regions? Most of your work has been right here. Now you are piling up administrative costs. We are for you, we think you are outstanding, but you set up a new unit here and here we go.

Mr. CONRAD. I would like to speak to that, if I may.

In the 10 regional offices, we now have regional supervision of one for every 333 people. The additional supervision or service direction item we are requesting would furnish one for each 126 people.

ESTABLISHMENT OF TRANSPORTATION AND COMMUNICATIONS SERVICE

Mr. THOMAS. How did this unit begin?

I notice you are getting into a local matter with the transit company in the District of Columbia in which the Federal Government has no more responsibility than the man in the moon. Then you are looking over telephone and power charges not only for your own agency but other agencies.

We had a motor pool setup under Federal Supply. There is nothing new about that. You have an expert on that.

The Commissioner set up a couple years ago this telecommunications system. What use do you have for somebody in all these regional offices? You will not have them delving into every State commission on transportation and utilities, I hope.

Mr. BOUTIN. Mr. Chairman, may I speak to that, please. This, actually, before Mr. Conrad came aboard, was the Transportation and Public Utility Service of GSA where we had pretty much the same structure except telecommunications, and they did not at that time have the motor pool.

Mr. THOMAS. You have not differed with anything I have said yet.

Mr. BOUTIN. I am not differing with you with the exception of maybe a few places.

This has been expanded and we can point to some real savings from this. Last year it was some $17 million in transportation management, $8.5 million in motor vehicle management, about $5 million in comparable Government communications costs, and approximately one-half million dollars from the public utilities activity. We think this was a good decision of the Congress. We brought the motor pool in here so all the transportation requirements would have one head. We started this new communications voice system on February 15 and expanded our record system to accommodate 150 million words of teletype annually as well as a data transmission capability.

GSA INTERVENTION IN RATE CASES

To give you an idea of the workload, if this goes exactly in the same ratio as the number of cases filed in State commissions and Federal agencies, last year we had 22.9 man-years used for the representation function, and 37 people involved in part time, at a total cost of $234,763.

Mr. THOMAS. In Chicago you have a big transportation center and a big regional office there. If the State of Illinois has a rate case do you intervene in each of them?

Mr. BOUTIN. No, we do not intervene in each. The yardstick is when the Government has a significant stake in the case as a consumer. We are not a public defender. We defend the interests of the Government as a consumer. We examine these cases first in the regional office and then in the central office and make a decision.

Mr. THOMAS. If a case is filed in the State of Illinois the Government is probably the biggest single user of that service?

Mr. BOUTIN. In Illinois it would be difficult to say because there are a lot of manufacturing concerns in that State, but in the Far West it

could be the biggest single user, for example where AEC has a big installation. I would say in New Mexico we are probably the biggest consumer of power, so we would have a great stake in any filings for rate increases for power. Transportation is really the biggest case load of all.

Mr. THOMAS. The U.S. Government is the biggest business in the United States—I see where General Motors is doing $11 billion a year business, but every year this Government is spending $100 billion, so it is still the biggest business in the United States. You can take this service here, starting like you are doing now, building a little setup in each of your regional offices, this could balloon into one of the biggest divisions in GSA. The basis exists for it, or a theoretical basis, at least. Any kind of utility rate case filed in any State, power, transportation, whatever it is, probably the biggest user is the Federal Government. Is this the groundwork for you to intervene in every one of them? Where will it end?

D.C. TRANSIT CASE

There is an example right here in the District of Columbia for transportation.

Mr. CONRAD. We have a pretty big stake in that. The proposal of D.C. Transit represents an increase through the elimination of tokens that would cost the Government an additional $25,000 a year.

Mr. THOMAS. Whom are you representing?

Mr. CONRAD. The Federal Government. The transportation system is used by its employees as they commute on Government business.

Mr. OSTERTAG. The Federal Government would not pay for it?

Mr. CONRAD. Yes, it would.

Mr. BOUTIN. We are talking about transportation between Government buildings while they are at work.

Mr. EVINS. The Government gives this transit company a franchise and guarantees them a return, so I think you are wise in keeping an eye on it in the District.

Mr. THOMAS. Most of the transportation between agencies in Washington is by motor pool. Less than 1 percent of your personnel do the traveling from one agency to another. Do they not all use the motor pool?

Mr. BOUTIN. If they all used the motor pool we would go broke. If an employee goes from the GSA to ICC, this is the way they would travel, take a bus.

Mr. THOMAS. Who would have occasion to go to the ICC for this unit?

Mr. BOUTIN. We would have a lot of occasion to go in from this unit to secure information.

Mr. THOMAS. The jurisdiction inside the building is dealing with waterways, railways, trucks, and buses. That will be your transportation unit. How many people in the Department go to the Interstate Commerce Commission?

Mr. BOUTIN. You probably would have 50 trips a month, would you not, Bob?

Mr. CONRAD. At least that, just in the Transportation Office.

Mr. THOMAS. Fifty trips or five people going ten times?

Mr. CONRAD. A group of people making repeated visits there.
Mr. THOMAS. And they buy tokens?

INCREASED COST TO GOVERNMENT OF TRANSIT TOKENS

Mr. CONRAD. The Agency buys tokens. The civilian side of Government buys about $100,000 of tokens a year. This proceeding now pending, by the elimination of the tokens would increase this by 25 percent.

Mr. THOMAS. I make the assertion before you get through you will spend more than $25,000 intervening.

Mr. BOUTIN. Even if we spend as much as that—and that is an observation I would not agree with—if you have long-term recurring savings from it, is it not worth it? The first saving may not be very much but after the first year you have recurring savings. Some of the electrical cases are very complicated.

Mr. EVINS. They multiply.

Mr. BOUTIN. The Alaska rate case, for example, where we are trying to get the rates lowered. The delegation from Alaska is interested and we are interested because we ship up there. I would hesitate to say how many times we have sat down with them and tried to work it out.

Mr. EVINS. Is not the D.C. Transit Co. prosperous?

Mr. BOUTIN. We see no indication otherwise, Congressman.

Mr. EVINS. Mr. Conrad, what can you tell us about the situation?

Mr. CONRAD. On the D.C. Transit case?

Mr. EVINS. Yes.

Mr. CONRAD. The Transit Company filed an application to change the rate by elimination of the tokens. The U.S. Government on the civilian side buys about $100,000 of tokens annually. The proposed change would have increased the Government's cost about $25,000 annually. Accordingly, we felt that was of sufficient interest for the Federal Government to intervene as a user of the service.

There is an auxiliary aspect of this that warrants consideration also, and that is that the Federal Government is interested in space in the metropolitan area and by the increase in the bus fare, the Transit Company's own testimony is an estimated loss of 400,000 rides annually, which would mean an increase in private transportation and that would increase the congestion downtown.

Mr. JONAS. I do not understand that response. You mean the Capital Transit Company stated unless they could get the rate increase this result would follow?

Mr. BOUTIN. It is just the other way, Congressman. If they did increase the rate the estimate is they would lose that many riders because of the increased cost.

Mr. THOMAS. Can you not rely on the local government here to take care of those items? As Mr. Conrad said, the first thing you know he will be in the parking business. He is interested in space. He spoke of a $25,000 increase annually. Suppose it is too high? Where will it stop? The next thing we know you will be in the parking space business.

Mr. EVINS. You mean you are condoning a little evil but not a big evil?

Mr. BOUTIN. We are not a Don Quixote on a white horse. We examine these things. We do not know until we get all the facts but at least we are there representing Uncle Sam.

APPLICATION TO INTERVENE IN TRANSIT CASE

Mr. JONAS. Did you not have to petition the courts several times before they let you get in?

Mr. BOUTIN. No. We applied and our application to intervene was denied by the Commission.

Mr. JONAS. Because you were too late?

Mr. BOUTIN. Because they said we had not applied in timely fashion. We took it to the court and were told if we reapplied the application would be considered to permit our intervention.

Mr. JONAS. Why were you late in applying?

Mr. BOUTIN. We do not believe we were late, and we believe the subsequent action proved they were wrong or otherwise we would not be in there.

Mr. JONAS. How long had the proceeding been pending when you petitioned to intervene?

Mr. CONRAD. Twenty-nine days.

Mr. OSTERTAG. Is the issue involved here that of $25,000 a year?

Mr. BOUTIN. This is about what we are talking about.

Mr. JONAS. How many people do you have working on this?

Mr. BOUTIN. We anticipate in 1964 we will use 26.3 man-years in this whole function of intervention countrywide, and 42 people involved part time.

Mr. BOLAND. Is not the public interest protected sufficiently by intervenors other than the GSA? As has been pointed out by some of the members, is not the interest of the Commission of the District of Columbia itself enough to protect public interest, and does not this spill over into the interests of the Government itself? All you would have to do is supply them with the information and could you not depend on them to do the job? Why are you not excess baggage as an intervenor in this instance?

Mr. BOUTIN. We get into a philosophical conflict that is not easy to answer. We have a charter that says we shall represent the interests of the Federal Government as a consumer in regulatory matters. We have followed that. We do not want to be critical of the State or Federal regulatory bodies or those in the District of Columbia, but there is no one who has the basic mission of protecting Uncle Sam—everybody else can have their own lawyers—and unless GSA, by its own action or by delegation, intervenes, I think Uncle Sam is not going to be well protected.

Mr. BOLAND. I think that is a fine statement, I applaud it, but I do think in a case like this, which is a relatively simple case, the Federal viewpoint could be just as well presented by the local people. I can understand what objection you might have to permitting Commissions throughout the United States to do this, but in an instance like this it would appear relatively simple.

Mr. EVINS. I think there is more reason for them to intervene in the District of Columbia than in some of the State cases.

Mr. BOLAND. This is a relatively simple case so far as the interests of the Federal Government are concerned and I thought perhaps the local people could present it.

Mr. JONAS. To follow this procedure to its logical conclusion you would intervene in every local municipality in the United States where the Federal Government has a building if they petitioned for an increase in light rates. You would have a right to do so?

Mr. BOUTIN. We would have the right to do so if we carried it to an absurdity. But the Government must have a significant interest, and this carries the connotation of a significant reasonable interest. In this case I think it was well justified. We have a real problem here of Federal employees going to and coming from work which is completely apart from our interests as a consumer. We have a great interest in their getting in here. There is not enough parking here. How will we maintain the National Capital and the Federal structure unless we have good means of transportation? We have gone on record as wanting to see more rapid transit at a reasonable price.

Mr. OSTERTAG. You will recall that, we discussed this matter at great length at hearings in the past and at that time there was wholesale reaction to GSA intervention.

Mr. EVINS. At that time it involved telephone rates.

Mr. OSTERTAG. There was wholesale reaction and criticism and at that time I believe there was a reasonable understanding as to how this responsibility was to be applicable and I assumed that the issue had been resolved. But, by virtue of developments here, it would seem you are back on that track again.

Mr. BOUTIN. Mr. Congressman, our procedures have not changed one iota. We examine each of these rate cases and try to make a judgment if it is in the Government interest for us to spend the time, the effort, and the money to get into it. I do not think there has been hardly any criticism—at least it has not come to my attention—of our activities. We have selected them carefully and when we have gone into a case we have gone all the way. I think in the case of the D.C. Transit our interests are significant enough that we should be in it.

Mr. EVINS. The transit company is operating under a franchise given to it by the Government with a guaranteed return. I think you are well within your rights in keeping an eye on their rate structure.

Mr. OSTERTAG. But GSA is not a regulatory agency.

Mr. EVINS. They do not claim to be.

Mr. BOUTIN. No, we are not a regulatory agency. We have no voice in the final decision made on any of these. We simply go in and present the facts as a contribution to the information that the body itself has available to make a judgment. We win some and lose some.

GSA POSITION IN D.C. TRANSIT CASE

Mr. JONAS. What is your position in the D.C. Transit case?

Mr. BOUTIN. We are in as an intervener.

Mr. JONAS. I know, but what is your contention?

Mr. BOUTIN. We have not evaluated the material at hand yet, but our general position is that the company has not filed sufficient information to justify the increase it seeks.

Mr. JONAS. How do you know you should intervene, then?

Mr. BOUTIN. If we did not intervene we would not know if we should have gone in or not because we would not have the opportunity to examine the information.

Mr. JONAS. You did not intervene, then, on the basis of information you had that indicated the proposed rate was exorbitant? You intervened to find out whether it was exorbitant?

Mr. BOUTIN. It is a question of intervening and taking a position.

Mr. JONAS. But you would not take the position the proposed rate was unfair unless you thought it was?

Mr. BOUTIN. Right now our position is the request for the increase is unjustified and the position was indirectly supported by the U.S. Circuit Court in disallowing the last rate increase made by the company.

Mr. JONAS. To what extent do you think it is unjustified?

Mr. BOUTIN. That is exactly what I was trying to say. We can take a position in any case in which a request is made for an increase in rates or an increase for service. And we intervene both ways, in favor of some and in opposition to others. We submit evidence before the regulatory body and examine evidence submitted by others to make a judgment.

Mr. EVINS. You have made a judgment that there is substantial concern as far as Government interest in this case is concerned?

Mr. BOUTIN. That is correct.

Mr. BOLAND. And your intervention has to be timely or you cannot be an intervener.

Mr. BOUTIN. That is right. Once a case is started it is too late.

Mr. OSTERTAG. Is it not fair to say that your intervention is based as much on indirect use as it is on direct use? In other words, the increase of about $25,000 a year in cost to the Federal Government, direct expense, is not the whole reason?

Mr. BOUTIN. It is not the whole reason in this particular case, that is correct. Normally it is strictly a dollar and cents question or it may be one of service.

Mr. OSTERTAG. But you did not say that in the first instance.

Mr. BOUTIN. It goes both ways but we think in and of itself the $25,000 is a significant factor in the overall picture of what this company is going to ask for rates.

In all this function in transportation and communications, the representation function is minute in dollars expended and number of people involved and number of positions. In this service, the amount requested for this function is about 3 percent of its total requested appropriation. This is very small. It has not grown. We have a group of highly qualified technical people to help us make these judgments. They do not devote full time to this in many instances but they have the competence and are called in to work in these interventions.

Mr. JONAS. You have not taken the position so far that the requested rate increase is out of line, you have not made that determination yet and you will not make a determination on that until you get in the hearing and hear the facts. Is that correct?

Mr. BOUTIN. Our position right now on the information we have is that the requested increase is not justified.

D.C. RATE INCREASE REQUESTED

Mr. JONAS. What is the requested increase?

Mr. BOUTIN. The requested increase is to do away with the token so it will be a straight 25-cent fare rather than five tokens for $1, which reduces it to 20 cents. Is that right?

Mr. CONRAD. That is absolutely correct.

Mr. EVINS. It used to be a dime when I came to Washington and now it is a quarter.

Mr. JONAS. We recognize that upward trend in costs in Congress by giving a salary increase almost every other year since I have been here. The cost of living has gone up in every field. I do not hold any brief for the transit company, I do not know any of the people involved. My interest is in knowing what procedure you follow. That is the basis of my questions.

Mr. OSTERTAG. Aside from the *Transit* case in the District of Columbia we have certain Federal agencies that are regulatory bodies and control or regulate rates. Do you intervene in interstate or federally controlled rate cases?

Mr. BOUTIN. Yes; we intervene in cases before the Interstate Commerce Commission, the Federal Communications Commission, Federal Power—I do not know about Federal Trade.

OPERATING EXPENSES, TCS

Mr. EVINS. Let us take a look at "Operating expenses." Put page 210 in the record.

(The page referred to follows:)

Operating expenses, Transportation and Communication Service

1963 appropriation	$4,097,000
Transfers	+320,000
Pay act supplemental	+200,000
Comparative	4,617,000
Change	+1,253.000
1964 estimate	5,870,000

GENERAL STATEMENT

"This appropriation provides for improving management of transportation, communication, and public utility services in all civilian agencies, protecting the Government's interests in cases before regulatory bodies, and for providing assistance to civilian agencies in each of these specialized fields. Fair value of personal property received from other appropriations or funds without cost for use by GSA is as follows: 1962, $2,000; 1963, $1,000; and 1964, $1,000" (from the Budget for 1964).

In addition to activities previously financed by this appropriation the "Motor vehicle management" activity was transferred from the Federal Supply Service to the Transportation and Communication Service during 1962.

The estimate for 1964 is $5,870,000 as compared to financing of $4,617,000 for 1963. The increase of $1,253,000 includes $306,000 for increased transportation services to other Government agencies as well as to the expanding FSS program within GSA; $526,000 for support of the Federal telecommunications system including research and development; $188,000 for normal administrative operations in support of the expanded program; and $233,000 for other activities. The estimate for 1964 includes $420,000 for increased pay costs as a result of the Federal Salary Reform Act of 1962.

Representation activities are expected to be maintained at about the same level as in 1962 and 1963. The representation function consists of (1) negotiations with carriers and utility companies concerning consumer considerations of the Government, and (2) formal participation in contested rate cases. Every effort is made to discuss new rate proposals with industry before filing. It is anticipated that preliminary rate structure negotiations will minimize the number of contested rate proceedings in which GSA will participate on behalf of the Government.

APPROPRIATION LANGUAGE

"For necessary expenses of transportation, communications, and *other* public utilities management and related activities, as provided by law, including services as authorized by section 15 of the Act of August 2, 1946 (5 U.S.C. 55a), at rates not to exceed $75 per diem for individuals, [$4,097,000] *$5,870,000*."

Explanation of appropriation language

Addition of the word "other" is necessary to provide coverage for public utilities besides communications which is a public utility and cited separately in the present language.

Mr. EVINS (reading):

This appropriation provides for improving management of transportation, communication, and public utility services in all civilian agencies, protecting the Government's interests in cases before regulatory bodies, and for providing asssistance to civilian agencies in each of these specialized fields.

You are requesting an increase of $1,253,000. The increase includes "$306,000 for increased transportation services to other Government agencies as well as to the expanding FSS program within GSA; $526,000 for support of the Federal telecommunications system including research and development; $188,000 for normal administrative operations in support of the expanded program; and $233,000 for other activities. The estimate for 1964 includes $420,000 for increased pay costs as a result of the Federal Salary Reform Act of 1962."

TRANSPORTATION RATE CASES

You have been operating over there several years for about a $4 million level and this year for the first time you go over $5 million, $5,870,000. How many rate cases in transportation have you entered into during the past year?

Mr. BOUTIN. As of the end of December we had 56 cases pending. During the first 6 months we entered 11 and we concluded 9, leaving a total of 56 pending.

Mr. EVINS. Where were these new 11 cases instituted?

Mr. BOUTIN. The bulk of this increase, of course, is in the communications function that we did not have heretofore. We started it last year in a very small way. That is where most of this difference in money is. There is some small increase in the administration of transportation management where, for example, an agency will call us and want us to arrange transportation by rail or by boat to point of delivery for them. For example the Bureau of the Mint may want us to arrange for the transportation of gold bullion from the mint.

Mr. EVINS. The largest portion of your increase is for transportation for various agencies of Government?

Mr. BOUTIN. To assist them in the transportation. A large part is in the GSA itself where we now have delivered prices so we have to arrange the transportation of the items and handle claims resulting from the transportation. That is a load we did not have before last July 1.

RATE CASES BEFORE ICC

Mr. EVINS. You filed 11 new cases. Where were they filed and what did they involve generally?

Mr. CONRAD. Most of the cases were before the Interstate Commerce Commission. There were four before the Federal Maritime Commission and one transportation case before the Georgia Public Service Commission.

Mr. EVINS. Tell us about the general nature of those before the Interstate Commerce Commission.

Mr. CONRAD. One case before the Interstate Commerce Commission involved the question of increased rates in the Central States territory where they were increasing the class rates 5 percent and the commodity traffic rates 7 percent. The Commission ordered an investigation in May 1958 and began a study on January 23, 1959. Request was granted to withdraw the emergency rates. In 1962 the examiner's report was filed recommending discontinuance of the proceedings.

Mr. EVINS. You intervened because you thought there was a substantial element of increased cost to the Federal Government?

Mr. CONRAD. As a user of that service.

Mr. EVINS. And this one you say was withdrawn?

Mr. CONRAD. That is correct; on August 3, 1962.

Mr. EVINS. How much do you estimate you saved in that case? If the rate increases had gone into effect how much would it have cost the Government?

Mr. CONRAD. I have been advised the additional cost would have been at least $67,000.

CASES BEFORE THE MARITIME COMMISSION

Mr. EVINS. What about the cases before the Maritime Commission? Tell us generally what was the nature of your intervention there.

Mr. CONRAD. One of the cases involved the Atlantic and gulf ports. It was an investigation of general practices and was strictly a rulemaking proceeding to determine the extent to which the Commission would regulate.

Mr. EVINS. What was the result of the case?

Mr. CONRAD. As of January 1, 1963, that case is awaiting the examiner's assignment of further hearings.

GEORGIA RATE CASE

Mr. EVINS. What is the nature of the case in Georgia?

Mr. CONRAD. I will ask Mr. Miller to reply to that.

Mr. MILLER. In that particular case the Commission had taken actions resulting in the cancellation of a contract which GSA had with a motor carrier to transport the household effects of a large number of Government employees of the Department of Health, Education, and Welfare.

We made this contract under an advertised-bid procedure. We appeared in this proceeding to defend the principle of making contracts

of this type by advertising procedures and rates different from those regulated by the Georgia Public Service Commission. There were a series of appeals all the way to the U.S. Supreme Court which resulted, a few weeks ago, in a decision by the U.S. Supreme Court that this type of contract is proper and lawful.

Mr. EVINS. You entered into a contract with X transportation company to haul certain employees of the Department of Health, Education, and Welfare?

Mr. MILLER. That is right.

Mr. EVINS. What would be the nature of this type of transportation?

Mr. MILLER. These employees were being transferred from the Savannah area and the Atlanta area. They were employees of the Communicable Diseases Laboratory now located near Atlanta.

Mr. EVINS. The transportation company wanted to cancel the contract?

Mr. MILLER. They were put under pressure by the Georgia Public Service Commission to do so.

Mr. JONAS. What?

Mr. MILLER. The carrier canceled the contract on the basis of a contention of the Georgia Public Service Commission that the contract made with us was in violation of Georgia law.

Mr. EVINS. The Supreme Court did not hold in that area but affirmed the validity of the contract?

Mr. MILLER. Yes, sir.

Mr. OSTERTAG. Would the gentleman yield?

Mr. EVINS. Yes.

REASON FOR GSA REPRESENTATION

Mr. OSTERTAG. You have been discussing certain cases involving matters before a Federal agency. What is the real principle of the General Services Administration as a representative of the Federal Government, as a user or consumer representing the Federal Government before the Federal Government?

Mr. BOUTIN. Strictly as an agency representing the interests of the Federal Government as a consumer. The regulatory body itself has to do with the rates as they apply to everyone. We represent the Government the same as if United States Steel or other company had an interest. They would have a lawyer in on the case speaking for their interests to develop information for the regulatory body, on which they base a decision.

Mr. OSTERTAG. You mean the Federal Government as a regulating agency?

Mr. EVINS. As a consumer.

Mr. OSTERTAG. What constitutes the reason or need for the Federal Government to represent the Federal Government before another Federal agency to right a wrong?

Mr. BOUTIN. The responsibility of the regulatory agency is not to represent the Federal Government as an operating entity but the Federal Government as an agent for the people of the country and for all of the users be it telephone, electricity, or whatever it is. All we do is to represent the interests of the Government as an operating entity the same as General Motors, United States Steel, Union Car-

bide, or anybody else in that this is the effect that this will have on our costs, and these are the reasons we feel that this action is justified or is not justified.

We enter both ways.

On the Telpak rates of A.T. & T., we intervened in behalf of and in support of A.T. & T. Bethlehem Steel, I think, was another one. We intervened in behalf of A.T. & T. but on another one we may be right across the table from A.T. & T.

Mr. JONAS. Why would you intervene in behalf of A.T. & T. in that case?

Mr. BOUTIN. Because we have a great interest in this and because this is a vehicle we use to reduce costs in communications for the Federal Government to a great extent.

Mr. JONAS. Do you intervene to keep the rates up?

Mr. BOUTIN. No; this actually was a voluntary rate reduction for the large users.

Mr. JONAS. You intervened to oppose that?

Mr. BOUTIN. No; we intervened in favor of it.

Mr. OSTERTAG. You did that because, as a consumer, you would be affected by it?

Mr. BOUTIN. Because, as a consumer, it was in our interests; significantly so.

Mr. OSTERTAG. Would most of these cases involve what might be termed discriminatory rates or practices which would involve the Federal Government as compared with other consumers?

Mr. BOUTIN. Not necessarily but it could be.

We have had instances when that has been so.

Maybe, Malcolm, you can cite one or two.

Mr. MILLER. One instance of a discriminatory rate is where we paid a higher rate to a warehouse a short distance outside of Topeka which was considerably higher than the rate to Topeka, Kans. We obtained about $175,000 reparations from the railroads as a result of that.

That is actual cash collected back from the carriers.

Mr. BOUTIN. I would like to point out, too, that a substantial amount of our workload here relates to the SAGE cases where we were instructed by the Congress that we should represent the Government in all of these cases, not anyone else, not the Department of Defense, but the GSA should undertake the task.

Mr. OSTERTAG. Mr Administrator, I am merely trying to determine the principle by which it is necessary for the Federal Government to be represented before a Federal agency with regard to rate cases. The Federal Government itself through these agencies establishes these agencies.

Mr. BOUTIN. One of the things——

Mr. OSTERTAG. I am trying to get at the principle of the same Government being involved in two different ways.

Mr. EVINS. Is not the answer to that, my colleague, to say, "Why have a GAO?" "Why have a GAO if one agency of the Government could check upon another agency of the Government?"

Mr. BOLAND. The answer is that these regulatory bodies do not represent the Federal Government as such. In a sense the regulatory body does represent the public interest but it is not the province of the ICC or the FCC or the regulatory bodies to represent the Federal Gov-

ernment per se with the result you have to have some of them representing Federal interests before regulatory bodies, and that is why GSA does it.

Mr. BOUTIN. That is correct.

DECISION ON GEORGIA RATE CASE

Mr. JONAS. I would like to ask a question about this Georgia case.

Did the Supreme Court hold that it was legal for the Department of Health, Education, and Welfare to make a conntract with a carrier for the transportation of persons and property at rates lower than the regulated rates as prescribed by the Georgia Public Service Commission?

Mr. MILLER. Yes, sir. Except that the contract in that particular instance was made between GSA and the carrier on behalf of the Department of Health, Education, and Welfare.

Mr. JONAS. What was the basis of the Court's decision?

Did the Court hold that because the Federal Government was involved the Georgia Regulatory Commission had no jurisdiction?

Mr. MILLER. That is correct, sir. It was an interference with our Federal Government procurement policy.

Mr. JONAS. The holding then was to the effect that with respect to the Federal Government in transportation matters, the Georgia Public Service Commission has no jurisdiction over rates?

Mr. MILLER. I do not think the decision went that far. It did go so far as to say that if the Federal Government exercised its procurement powers by way of advertised bidding procedures, that exercise of power to establish charges through the advertised bidding procedure was not subject to regulation by the Georgia Public Service Commission.

Mr. JONAS. That is pretty far-reaching as a decision, is it not?

Mr. MILLER. Yes, sir.

Mr. JONAS. That would affect rates all over the United States, would it not?

Mr. MILLER. Yes, sir.

Mr. JONAS. And would affect the right of State regulatory agencies to control rates applicable to the Federal Government, would it not?

Mr. MILLER. This decision is merely one in a series of decisions. The first one of these decisions was made in 1958 involving a contract between the Department of Defense and a carrier in California.

The Georgia case was merely an affirmation of the principle decided in the California case.

Mr. JONAS. Thank you.

COMMUNICATIONS PROGRAM

Mr. EVINS. Mr. Administrator, you pointed out that the greatest portion of the increase is for transportation services to other Government agencies. Tell us about this increase of $526,000 for telecommunications. Why is it necessary and required?

Mr. CONRAD. We are requiring this additional amount, Mr. Evins, in order that we can accelerate the communications program which we started a year ago.

Mr. BOUTIN. Let me interrupt to say that this increase is only a very small part required to accelerate the implementation of phases 2, 3, and 4. Thus far, we have implemented only phase 1. Forty-three major metropolitan areas and satellite communities around them have been implemented and now we are looking toward connecting 300-plus communities for not only voice transmission but record, facsimile, and data transmission. It relates almost directly to the additional service that is going to be provided in the regions. These people will almost exclusively be engineers to keep the system operable, to improve the system as we go along, to look for ways to save money, to consolidate switchboards where we can reduce operating costs, and go into automated equipment, centrex, and items like that.

Mr. EVINS. We discussed this telecommunications system earlier. Do you envision a reduction of commercial communications services when this is fully implemented and installed and operated?

Mr. BOUTIN. When this is fully implemented and in operation, Congressman, we expect we will have a savings of anywhere from $15 to $27 million a year over comparable costs to the Government for inferior service right now.

Mr. EVINS. I do not know about inferior service.

Mr. BOUTIN. Inferior by comparison; yes, sir.

For instance, under this system you can direct——

Mr. EVINS. Under all budgets, yours as well as others, they indicate that all communication costs normally are on the increase. This is on the increase, too, and I think that you can show a reduction in expenditures otherwise at a later date?

Mr. BOUTIN. Yes, sir. We will be able to stabilize it overall in the bill to the Government.

Mr. EVINS. You have $233,000 for "Other activities."

What other activities? And what do they include?

Mr. BOUTIN. I am lost as to what page you are on.

Mr. EVINS. Page 210, in the middle of the page.

You are asking for $233,000 for "Other activities."

We discussed the pay item and that is in the third paragraph.

Mr. TURPIN. I believe, Congressman, that this $233,000 is the total increase of items for motor vehicle management, public utilities service, and service direction.

Mr. EVINS. Motor vehicle management?

Mr. TURPIN. Yes, sir.

This is the third, fourth, and fifth items.

Mr. BOUTIN. That is exactly right.

Mr. EVINS. You have a language change set out at the end of the page.

Mr. THOMAS. This has already been gone into pretty thoroughly.

TRANSPORTATION SERVICES

Mr. EVINS. Mr. Reporter, put pages 212 through 218 in the record.

(The pages follow:)

Operating Expenses, TCS

1. Transportation services

	Amount	Average employment		
		Department	Field	Total
1963	$1,840,000	69.2	125.3	194.5
Change	+306,000	+7.3	+12.7	+20.0
1964	2,146,000	76.5	138.0	214.5

HIGHLIGHT

"Plans and procedures for improving transportation practices and operations in civilian agencies are developed; reasonable rates are negotiated with carriers; the Government's interest as a user is protected in proceedings before regulatory bodies; and contracting officer procurement assistance, rates, routing, and related srevices are supplied to executive agencies." (From the budget for 1964.)

Transportation services are performed under three subactivities as follows:

Summary of performance cost

	1962	1963	1964
(*a*) Transportation management	$374,748	$435,300	$462,800
(*b*) Rate and routing service	884,900	957,600	1,097,800
(*c*) Contract administration	446,535	447,100	585,400
Total cost or estimate	1,706,183	1,840,000	2,146,000

Justification

(*a*) *Transportation management*

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Total cost or estimate	$374,748	34.2	$435,300	38.4	$462,800	38.4

This request is for the agency assistance and seminar-workshop training programs. There is no increase in positions for this subactivity, the funding increase being primarily attributable to the Federal Salary Reform Act of 1962. With the completion by the regional staff of 1800 initial visits to civilian agencies field offices by the end of 1963, and the anticipated disclosures of many additional areas in which agency assistance and seminar-workshop training programs will be required to achieve maximum efficiency and economies in transportation operations of the respective agencies, this activity will have developed an impetus which must be encouraged and continued if GSA is to accomplish its objectives of improving the performance level of civilian agency personnel in the area of transportation management.

Demand for the training program is illustrated by the fact that in 1962, the 69 seminar-workshops conducted were attended by approximately 1281 employees from 273 different offices of the various agencies. In 1963, 111 such seminars and workshops are planned.

It has been demonstrated over the years that the agency assistance program is the vehicle which induces civil agencies to avail themselves of GSA experience in the utilization of economical and efficient transportation facilities and services with resulting economies in procurement and other operational programs of the Government agencies.

All handbooks, guides, and instructional material now published, and to be published in the future, will be in need of revision and updating. The constant change in transportation and in the law affecting transportation makes it just as important that these issuances be kept up to date as it that they be issued in the first instance.

In 1964 it is planned to develop and publish the following:

1. Federal Procurement Regulations, part 22, Transportation.
2. GSA Regulations title 1, chapter VII: Personal Property Management.
3. General Services Procurement Regulations, chapter 5, part 22, Transportation.
4. TCS Procurement Regulations, chapter 5D, Transportation.
5. A Government-wide Transportation Management Desk Reference Handbook.

The request also provides for the development and implementation of a passenger transportation management program, an area of potential savings which has heretofore been largely neglected.

(b) Rate and routing services

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Total cost or estimate	$884,900	92.5	$957,600	95.9	$1,097,800	104.1

	1962	1963	1964
(1) Information services	105,700	106,000	121,000
Unit cost	$6.88	$7.11	$7.14
Performance cost	$726,700	$753,200	$864,500

This subactivity provides the specific technical transportation information required in the execution of agency programs. It requires interpretation and application of freight tariffs and other schedules of charges; selection and utilization of specific carriers, their terminals, and other facilities; detailed knowledge of accessorial and other services and their charges; and other information with respect to all modes of transportation necessary to efficient traffic management and other transportation operations related to procurement, warehousing, stockpiling, and supply distribution programs. When this information is supplied and properly applied it results in the avoidance of unnecessary transportation expenditures.

The estimate for 1964 provides for a 14-percent increase in workload expected to be generated by the greatly accelerated FSS supply support to DOD, the expanded disposal program in connection with the stockpile of strategic and critical materials and the programs of other agencies. Included in performance costs for 1963 and 1964 are $34,600 and $65,000, respectively, attributable to the Federal Salary Reform Act of 1962. Excluding these mandatory costs, the unit costs would have been $6.78 in 1963 and $6.61 in 1964, the reduction in the basic unit cost resulting from increased productivity.

	1962	1963	1964
(2) Negotiations	250	320	360
Unit cost	$633	$639	$648
Performance cost	$158,200	$204,400	$233,300

Negotiations are conducted with carriers, and before carriers' committees and conferences to secure the best and cheapest transportation. This requires continuous technical and economic research and various kinds of analyses. They

include technical rate studies and evaluations, the development of statistical data and economic and cost studies. Traffic surveys, economic studies, and other information derived through automatic data processing provide a part of the basic study material utilized in negotiations and other types of traffic management. Studies utilized in negotiations are also used as background material in representation cases conducted before regulatory bodies.

The estimate for 1964 provides for increased activity in an area in which it is the responsibility of GSA to insure that all representation conducted on behalf of the Federal agencies before regulatory bodies on transportation matters is preceded by every possible and practical negotiation effort. Included in performance costs for 1963 and 1964 are $7,400 and $14,000, respectively, attributable to the Federal Salary Reform Act of 1962. Excluding these mandatory costs, the unit costs would have been $616 in 1963 and $609 in 1964.

(c) Contract administration

	1962		1963		1964	
	Amount	Average employees	Amount	Average employees	Amount	Average employees
Total cost or estimate	$446,535	65.8	$447,100	60.2	$585,400	72

	1962	1963	1964
(1) Contract referrals	2,179	2,000	2,000
Unit cost	$29.47	$30.70	$31.70
Performance cost	$64,223	$61,400	$63,400

Appropriate coverage of the transportation and traffic management aspects requires review and comment with respect to each referral of a transaction involving contracting by DMS, or other program operators, for such purposes as procurement, upgrading, relocation, sale, or transfer to other agencies. These efforts provide the Government with an opportunity to obtain the best possible contract price and avoid unnecessary operating and administration costs that would be incurred by inappropriate or inadequate contract terms and conditions.

Included in performance costs for 1963 and 1964 are $3,000 and $5,000, respectively, attributable to the Federal Salary Reform Act of 1962. Excluding these mandatory costs, the unit cost would have been $29.20 in both years.

	1962	1963	1964
(2) Contracts	622	650	650
Unit cost	$81.20	$80.31	$82.62
Performance cost	$50,504	$52,200	$53,700

Contracts for transportation or related services are utilized to cover requirements where existing rates are considered higher than necessary or existing services are deemed inadequate.

Special or unusual movements are involved, necessitating the development of detailed specifications tailored to meet the needs of the individual requests initiated by the primary program operators.

In 1962 there were 228 such contracts executed in the central office and 394 in regional offices for a total of 622. These included 194 movements of silver coin and 5 movements of gold bullion, having a total value of approximately $1.4 billion for the Bureau of the Mint; 11 movements of precious stones and precious metals, valued at approximately $28 million, for Defense Materials Service; 18 contracts for ocean freight forwarder services at the principal U.S. ports for use by Government agencies as they may require; and 394 contracts executed in the regional offices principally for local drayage and office relocation services for various Government agencies.

Included in performance costs for 1963 and 1964 are $2,500 and $4,000, respectively, attributable to the Federal Salary Reform Act of 1962. Excluding these mandatory costs the unit cost would have been $76.46 in both years.

	1962	1963	1964
(3) Shipments processed	74,550	75,000	85,000
Unit cost	$3.75	$3.69	$3.73
Performance cost	$279,398	$276,800	$317,100

One of the principal functions of this activity is to provide technical assistance and transportation services to all GSA programs and to all executive and civilian agencies. These services encompass worldwide movements, survey of ocean markets, charter party agreements, tank car leases, air charter contracts, marine insurance, customs clearances, export licenses and import permits, administration of Public Law 664, and routing of traffic.

This activity more than pays its way each year in terms of savings to the Government. For example, in 1962, it coordinated and arranged for ocean movements of DDT under the AID program to India, Vietnam, Indonesia, Thailand, and Brazil in accordance with Public Law 664, and effected savings of $520,691.

Another example was the saving of $554,793 resulting from negotiations for rates on urea from U.S. ports and five charters from Japan to East Pakistan.

Increase of five positions in the field is to keep pace with anticipated increased workload expected to be generated by the accelerated stockpile disposal program, the expanded supply support to DOD, and by increase in the AID programs.

Included in performance costs for 1963 and 1964 are $18,000 and $27,700, respectively, attributable to the Federal Salary Reform Act of 1962. Excluding these mandatory costs, the unit costs would have been $3.45 in 1963, and $3.40 in 1964, the reduction resulting from increased productivity.

	1962	1963	1964
(4) Claims evaluated	1,660	1,720	4,600
Unit cost	$31.57	$32.97	$32.87
Performance cost	$52,410	$56,700	$151,200

As a result of the conversion of the FSS supply program to a "delivered price" basis, GSA will be required to handle all loss and damage claims previously the responsibility of customer agencies. Increase of 10 positions in the field is to provide an additional position in each regional office to cope with this workload. Included in the performance costs for 1963 and 1964 are $2,500 and $7,300, respectively, attributable to the Federal Salary Reform Act of 1962. Excluding these mandatory costs, the unit costs would have been $31.50 in 1963, and $31.28 in 1964, the reduction resulting from increased productivity.

The change in method of shipment of FSS stores items from FOB origin to FOB destination has put the responsibility for processing claims for such shipments on TCS. Because the change is recent, it is difficult to determine the extent to which it will increase the claim load. Present indications are, however, that the increase will be substantial. Moreover, considerable investigation will be necessary to process such claims. Since customer agencies have not properly annotated discrepancies, are slow in notifying GSA of loss or damage and in giving sufficient information, time required for processing, will be greatly extended. In addition to the increase in time for processing, damage claims predominate and require more time and effort to process than claims for loss.

Many of the claims of FSS stores are of the concealed damage type which require different handling than for claims where damage is visible externally and in which there is no warehouse storage between initial origin and ultimate destination. Because of their nature, protests from carriers will be more frequent on concealed damage claims and the load of disputed claims will be increased in greater proportion to those presently handled.

This is another activity which more than pays its way. In 1962 recoveries amounted to $172,929 compared to costs of $52,410.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $1,835,000 for 226 permanent positions, distributed as follows:

	1962			1963			1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
(a) Transportation management	18.0	17.0	35.0	21.0	18.0	39.0	21.0	18	39.0
(b) Rate and routing service	30.0	66.0	96.0	29.0	68.0	97.0	38.0	70	108.0
(c) Contract administration	25.0	43.0	68.0	21.0	40.0	61.0	21.0	58	79.0
Total positions	73.0	126.0	199.0	71.0	126.0	197.0	80.0	146	226.0
Average employment	70.1	122.4	192.5	69.2	125.3	194.5	76.5	138	214.5

Other objects: $311,000 provides:

(1) $138,000 for personnel benefits, including $119,000 retirement contributions, $12,000 health benefits, and $7,000 group insurance.

The remainder of $173,000, or 8.1 percent of total estimate, provides:

(2) $32,700 for approximately 1,211 days travel at $27 per day and $8,900 for motor pool travel.

(3) $33,000 general telephone, $7,000 long distance and $6,500 teletype.

(4) $31,700 for printing special management improvement materials and other miscellaneous printing.

(5) $16,800 for contractual services.

(6) $24,600 for normal office supplies, $1,500 for operating supplies, and $4,500 for technical publications.

(7) $4,000 replacement of obsolete equipment.

(8) $1,800 miscellaneous transportation costs.

Positions by grade and average employment

Grade	Actual, 1962			Program, 1963			Request, 1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
GS-15	3.0	1.0	4.0	3.0	----	3.0	3.0	----	3.0
GS-14	10.0	6.0	16.0	9.0	7.0	16.0	9.0	7	16.0
GS-13	10.0	6.0	16.0	10.0	7.0	17.0	14.0	7	21.0
GS-12	8.0	11.0	19.0	8.0	11.0	19.0	10.0	21	31.0
GS-11	5.0	20.0	25.0	7.0	20.0	27.0	8.0	25	33.0
GS-10	----	1.0	1.0	----	1.0	1.0	----	1	1.0
GS-9	8.0	24.0	32.0	8.0	24.0	32.0	8.0	25	33.0
GS-8	1.0	2.0	3.0	1.0	2.0	3.0	1.0	2	3.0
GS-7	2.0	13.0	15.0	2.0	14.0	16.0	4.0	14	18.0
GS-6	3.0	2.0	5.0	3.0	2.0	5.0	3.0	2	5.0
GS-5	11.0	17.0	28.0	14.0	16.0	30.0	14.0	17	31.0
GS-4	4.0	11.0	15.0	1.0	11.0	12.0	1.0	13	14.0
GS-3	8.0	12.0	20.0	5.0	11.0	16.0	5.0	12	17.0
Total full-time positions	73.0	126.0	199.0	71.0	126.0	197.0	80.0	146	226.0
Average employees:									
Full-time	70.1	122.3	192.4	69.2	125.1	194.3	76.5	138	214.5
Part-time	----	.1	.1	----	.2	.2	----	----	----
Total	70.1	122.4	192.5	69.2	125.3	194.5	76.5	138	214.5

Classification by objects

	Actual, 1962	Program, 1963	Request, 1964
Personnel compensation:			
Departmental	$582,711	$614,400	$719,300
Field	882,694	959,600	1,115,700
11 Total personnel compensation	1,465,405	1,574,000	1,835,000
Other objects:			
12 Personnel benefits	108,683	118,000	138,000
21 Travel	15,557	22,200	32,700
Travel (motor pool)	4,137	7,900	8,900
22 Transportation of things	1,361	1,800	1,800
23 Rents and utility services			
Communication services	35,484	41,500	46,500
24 Printing and reproduction	25,362	28,100	31,700
25 Other services	13,045	16,000	16,800
26 Supplies and materials	25,472	27,500	30,600
31 Equipment	11,677	3,000	4,000
32 Lands and structures			
Total, other objects	240,778	266,000	311,000
Total obligations	1,706,183	1,840,000	2,146,000
Position data:			
Average salary, all positions	$7,570	$8,272	$8,291
Average grade, GS positions	8.6	8.8	8.9

Communication Services

Mr. Evins. We will now turn to Communications Services and place in the record the justification statement on pages 219 through 226.

(The pages follow:)

2. Communications services

	Amount	Average employment		
		Department	Field	Total
1963	$1,374,000	79.8	37.0	116.8
Change	+526,000	+14.8	+18.6	+33.4
1964	1,900,000	94.6	55.6	150.2

HIGHLIGHT

"Plans are developed for a Federal communications system for general and national defense use, compatible with Department of Defense communications systems. Studies of equipment utilization, service, rates and economic factors are made, contracts negotiated, and management and control of operations are provided." (From the budget for 1964.)

Communication services are performed under 5 subactivities as follows:

Summary of performance cost

	1962	1963	1964
(a) Voice programs	$305,400	$517,200	$668,500
(b) Record programs	475,670	498,000	723,000
(c) Special programs	168,000	194,000	317,000
(d) Circuit management	40,700	113,500	121,800
(e) Negotiation and representation	33,700	51,300	69,700
Total cost or estimate	1,023,470	1,374,000	1,900,000

JUSTIFICATION

Under this activity is the responsibility for planning, designing, establishing, and administering a new unified Federal Telecommunications System which will connect some 8,000 Government offices in approximately 1,750 cities and towns in the 50 States, Puerto Rico, and the Virgin Islands. Extensive use will be made of direct distance dialing, utilizing multichannel routing with switching centers strategically located so that messages can bypass probable target areas.

The system will be compatible with DOD communications systems; will incorporate the latest developments in automation; and will be capable of rapid expansion as required. It will provide for the increasing and diversified communications requirements, striving at the same time to minimize increased costs while meeting these demands. No interruption of existing telecommunications operations of GSA will take place during the transition period.

Actual operation of the system will be financed through the Federal Telecommunications Fund which was established by Public Law 87-847 approved October 23, 1962.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
(a) Voice programs	$305,400	29.7	$517,200	44.3	$688.500	57.1

The objective of the voice grade circuit switching program of the Federal telecommunications system is to enable personnel in each Federal agency office to communicate directly on a machine-to-machine or station-to-station basis with any other civil agency office in the Nation. The system will provide day-to-day service as well as incorporating features which would be necessary in emergency situations. Among these features are:

1. Twenty-four hour daily operation;
2. Automatic alternate routing of calls in the event of circuit overload, interruption, etc.;
3. Employment of strategically located and/or hardened switching centers;
4. Interconnection capability with military systems;
5. Customer long distance dialing;
6. Capability to transmit voice, encrypted traffic, data, facsimile, teletype, and similar transmission requirements.

The overall voice program is divided into two principal areas:

Telephone switchboard consolidation.—This subprogram aims at consolidating, on a local level, existing telephone switchboard requirements wherever technically and economically feasible. Approximately 350 metropolitan areas are susceptible to local consolidation. Completion of initial consolidations are scheduled for the latter part of 1964. The program will provide overall economy and improve efficiency at the local level through the elimination of duplicate switchboards, operating personnel, etc. As of October 31, 1962, consolidations in 31 cities had eliminated 218 operator positions and resulted in recurring annual savings to the Government of $340,000.

Nationwide circuit switching system.—This subprogram is concerned primarily with providing interconnection facilities between and among the metropolitan areas. Through the use of shared circuit and automatic switching facilities, a substantial improvement can be made in the utilization of personnel and quality of service available to subscribers. Some of these improvements are:

1. Improved efficiency obtained through the availability of multichannel facilities between switching centers and the capability of direct distance dialing at substantially reduced costs per call.
2. Reliability obtained through multiple and alternate routing between areas and utilization of hardened and dispersed switching centers.
3. Versatility through capability to interconnect with commercial and military facilities and ability to utilize a variety of terminal equipments such as: telephone, teletype, data, online cryptographic service, facsimile, etc.

Initial cutover to this nationwide circuit switching system (phase I) will take place in February 1963 in 42 metropolitan areas. This will be extended to an estimated 308 additional metropolitan areas in 1964.

The amount requested for 1964 will provide for:

1. Increased technical inspection throughout the country to assure maximum service to FTS customers following implementation of phase I of the voice grade circuit switching system in 42 cities. This will include detailed traffic studies, onsite alterations of the system, and necessary directory changes.

2. Planning for expansion of the FTS voice system to remaining areas, with appropriate consideration of emergency requirements, and further changes in the systems to permit automatic inward and outward dialing by all subscribers.

3. Cost analyses and periodic sampling of traffic volumes in order to maintain adequate flat rate billing system and also to confine facilities to the minimum required for operation of the system.

4. Planning for the integration of record communications facilities and the voice grade switching system.

5. Increased emphasis on planning and engineering of radio facilities for new Federal buildings, and on the review of Government-owned microwave systems to assure maximum utilization and lowest costs.

6. Additional manpower to review all governmental radio systems, including both fixed and mobile facilities which will eventually be integrated with the FTS voice and record systems.

7. Increases in the ordering of services, circuits, and equipment; inventorying of equipment; development of rates, billing and collection procedures; and in general planning for the financial stability of the system; all generated by expansion of the system.

Included in the estimate for 1964 is $50,500 attributable to the Federal Salary Reform Act of 1962.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
(b) Record programs	$475,670	31.7	$498,000	41.7	$723,000	52.8

This program is designed to satisfy the record communications requirements of all Federal civil departments and agencies with a common unified system which will provide efficient and economical machine-to-machine service for transmission of information by means of data, teletypewriter, facsimile and other transmission media, while at the same time providing message processing capability required for peak period traffic loads, time zone differences, machine code and language translation, and processing of multiple address messages.

The system is being designed to permit the Government to take full advantage of new techniques and advances in the communications art.

Objective of this program is to provide a system to become operational in fiscal year 1965. Implementation of the system is on a phased basis which permits comprehensive planning, engineering, and system operations on a gradually increasing scale until the unified FTS has been achieved. Activity in the record communications area is identified below under the following major activities:

(*a*) Planning, engineering, and operation of the expanded GSA record communications network.

(*b*) Planning, engineering, and operation of the FTS advanced record system.

(*c*) Integration of circuit switching with the FTS advanced record system.

(NOTE.—The nomenclature "advance record system" is used herein to identify a high capacity digital signaling, transmitting, circuit and message switching network).

As a result of expanded governmental program activities, teletypewriter and data traffic increased by approximately 20 percent from 52,500,000 textwords in 1961 to 63 million, in 1962, and the present volume indicates a further 20 percent increase in 1963, or a traffic of 75 million textwords.

In order to meet increasing demands on the system pending implementation of the ultimate FTS in 1964–65, action has been initiated to enlarge the system by addition of manual tape relay centers in Dallas, Tex.; New York City, N.Y.;

Atlanta, Ga.; Chicago, Ill.; Kansas City, Kans.; San Francisco and Los Angeles, Calif. This upgrading is now in progress and will double the capacity of the system and provide greater flexibility. In addition, six manual relay centers are planned for installation outside of known target areas, and will provide a limited emergency capability for all agencies.

Card transmission facilities (transceivers) have been installed in the 10 GSA regions and will be operated on a common-use basis for all agencies. A share of the capacity of these systems will be utilized by GSA in connection with the military supply system.

The evaluated FTS advanced record system approach, which was developed during 1962, is now being amalgamated with all agencies' present and future day-to-day and emergency requirements in order to arrive at the overall system configuration.

Refinement of these requirements into a properly designed adequate and flexible advanced record system, capabable of economical expansion or reduction, is subdivided into three major categories: terminal equipment subsystem; transmission subsystem; and relay center subsystem.

Detailed and comprehensive planning and engineering must be completed in all of the above areas prior to preparation of specifications and award of any contracts. Government advantages to be realized through the FTS are directly dependent upon correct evaluation of each subscribers requirements. These requirements are the basis for hardware selection and the preparation of switching program routines. To further amplify the scope of the tasks confronting TCS, the projected size of the advanced record system in 1965 is expected to exceed 2,000 teletypewriter subscribers, and approximately 200 data transceiver subscribers. The area of coverage of this system will make it the largest and most economical privately operated record communications system in the United States.

Programing efforts which must be completed prior to award of a contract to any supplier include, among other items, message switching routines, speed and code conversion techniques or routines, language conversion programs, message control programs, alternate routing programs, and many others.

In the message routine alone, an analysis must be made of the routing procedures presently employed by all agencies and the military, in order to construct the most appropriate compatible program.

Specifications which are produced must provide detailed requirements for technical control and test facilities, crytographic security requirements, and methods for combining message processing centers with circuit switch systems and with military message processing centers.

The amount requested for 1964 will provide for:

1. Formulation of plans for phasing the existing system into the ultimate FTS record communications system.

2. Maximum utilization of the phase I FTS voice grade circuit switch system for record purposes to carry a traffic load expected to reach 150 million text words and data in 1964, which would saturate the present up-graded teletype system.

3. The peak level of activity connected with the addition of an advanced record system to the FTS. This includes technical evaluation of bids, and ultimate selection of contractor; constant liaison with both contractor and commercial carriers to assure proper engineering and installation; constant review of agency requirements during this crucial period for appropriate incorporation into both the circuit switch and the message processing projects; close coordination and control of site acquisition and preparation, and provision of power, etc.; supervision of design and construction of all switching center programs and routines; perfecting and publication during this period of phasing plans and acceptance tests; development and publication of operating and routing instructions; and field training of more than 6,000 teletypewriter operators prior to the cutover of the first phase of the system by the end of 1964.

4. Increases in the ordering of services, circuits and equipment; inventorying of equipment; development of rates; billing and collection procedures; and in general planning for financial stability of the system; all generated by expansion of the system.

5. One hundred thousand dollars to continue and intensify research and development programs previously initiated in order to provide for more rapid data transmission requirements, matching of transmission characteristics for subscriber data transmission equipment, technical plans for integration of customer

terminal equipment into circuit switching and message processing centers, and to conduct tests of new equipment and techniques. The funds will be used to purchase electronic test equipment and for any necessary nonpersonal services contracts.

Included in the estimate for 1964 is $47,000 attributable to the Federal Salary Reform Act of 1962.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
(c) Special programs	$168,000	11.2	$194,000	16.7	$317,000	22.6

This subactivity consists of the Communications Security (COMSEC) program and the emergency program.

The COMSEC program is oriented toward the accomplishment of two primary objectives, which are:

1. The creation and maintenance of an effective COMSEC program for the civil agencies, which, by virtue of coordinated and consolidated efforts, will provide a high level of communications security protection in keeping with the objectives of the U.S. COMSEC plan, and meet the security communications requirements of the civil agencies; and

2. A consolidation in GSA/FTS of Civil Agency COMSEC procurement, equipment servicing, and other COMSEC areas of activity under a single-manager concept, in order to conserve funds, talent, and effort to the maximum extent possible.

The overall goal of the emergency program is to insure that the FTS will remain operable in the event that any portion of the normal system is disabled or destroyed. On the existing system it is planned to accomplish this program by providing additional switching and circuitry facilities on an engineered standby basis. This will also require the preparation and distribution of procedures and instructions necessary to operate these emergency facilities. As the ultimate FTS is developed, it will be the responsibility of this program to insure that necessary emergency features are incorporated.

The amount requested for 1964 will provide for:

1. The establishment of four additional COMSEC maintenance depots, making a total of five.

2. Additional COMSEC support for the emergency programs of all civil departments and agencies.

3. Testing and evaluation of ancillary equipment, both terminal and switching, will be expedited to assure proper physical, cryptographic, and transmission security of the system. Included for this purpose is $50,000 to be used for purchase of test equipment and for any necessary nonpersonal services contracts.

4. Increased emphasis to satisfy the requirements for incorporating several emergency features into the present system at the earliest possible date, and for providing these features in the new system as it is developed. These features include circuit restoration priorities, and selection of alternate and diverse routing for selected critical circuitry.

Included in the estimate for 1964 is $20,500 attributable to the Federal Salary Reform Act of 1962.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
(d) Circuit management	$40,700	3.9	$113,500	9.8	$121,800	10.5

The identification of common geographical areas where civil Government agencies have a community of interest has clearly demonstrated that the Government can obtain better service and greater economies in the procurement of communications circuits under multiple tariff offerings of the commercial carriers. Ordering of circuits by individual agencies directly from the commercial carriers without coordinating with the requirements of other agencies reduces both service and potential economies. In order to obtain more efficient service for the Government, GSA has initiated the practice of centralized circuit procurement at the same time permitting each agency to maintain operational control over its communications facilities.

Shortly after the initiation of this program, the commercial communication carriers filed a tariff, generally known as "TELPAK," which provided even greater economies to the Government where centralized circuit procurement was utilized.

The goal of this circuit management program is to provide civil departments and agencies with the most economical and efficient communications service through centralized circuit ordering. At the same time, it provides the Government with such essential emergency survival features as multiple circuit routings, the bypassing of probable target areas, and circuit restoration priorities for civil agencies. The latter are not subject to preemption by the military except under mutually predetermined conditions.

Negotiations are now underway with the Department of Defense for a joint effort in the circuit procurement area to obtain maximum economies to the Government.

Approximately $30 million annually is spent by civil agencies for circuits. Through centralized procurement advantages of circuit management it is estimated that $7 million savings annually will eventually result for all civil agencies.

During 1962, TELPAK activity was directed toward combining GSA and NASA circuits into 29 TELPAKS. In 1963 this is being extended to all civil agencies having circuit requirements. Growth during the year is expected to be from 29 TELPAKS to approximately 250, and fom 2 participating agenices to about 30.

The amount requested for 1964 will provide for:

1. Continuing fiscal and administartive management of 250 TELPAKS, to meet increased requirements by the agencies for diversified circuit requirements and to resolve complex circuit engineering problems during 1964.

2. Fiscal and administrative management for the circuit management program which will continue to increase in activity as the system is expanded. There will be increased activity in the ordering of services, circuits, and equipment; in inventorying of equipment; in development of rates; in billing and collection arrangements for the using agencies; and in planning for financial stability of the program.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
(e) Negotiation and representation	$33,700	3.4	$51,300	4.3	$69,700	7.0

The rapid increase in Government communications requirements for both civilian and military agencies, as well as complexities associated with a constantly changing communications art, together with the introduction of additional technological cost factors, demand increased activity by GSA in the negotiation of areawide and special service communications contracts and in the representation field. The proposed staffing is required for the preparation of appropriate testimony in matters pending before Federal and State regulatory bodies as well as for the necessary negotiation capability. Representation services are also provided the Department of Defense in proceedings relating to semi-automatic ground environment system, SAGE.

The amount requested for 1964 will provide for:

1. Further activity in the congressionally directed intervention in SAGE cases in individual States and continued participation in cases initiated in 1963 such as transoceanic private line rates, SCAN, Western Union general investigation, NASA interconnection rate case, and Pacific T. & T. investigation by the California Commission.

2. GSA undertaking formal action to challenge the propriety of rates in seven areas and considering formal action in five others.

3. Participation in a rate case involving the 300-type key system for FAA.

4. Constant revision of rate and tariff filings with Federal and State regulatory bodies to insure consideration of the interest of the Government as a user of communications services. The staffing of the negotiation and representation activity must be of sufficient depth and quality in order to accommodate all requests for rate and negotiation assistance from all departments and agencies of the Federal Government.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $1,414,000 provides for 162 permanent positions as shown below:

	1962	1963	1964
(a) Voice programs	34.0	47.0	61.0
(b) Record programs	36.0	45.0	57.0
(c) Special programs	14.0	1.80	25.0
(d) Circuit management	5.0	10.0	12.0
(e) Negotiation and representation	4.0	5.0	7.0
Total positions	93.0	125.0	162.0
Average employment	79.9	116.8	150.2

Other objects: $486,000 provides:

(1) $106,000 for personnel benefits, including $92,000 retirement contributions, $9,000 health benefits and $5,000 group insurance.

(2) $150,000 for pilot model testing and research, $100,000 of which is contractual services and $50,000 for purchase of equipment.

The remainder of $230,000, or 12.1 percent of total estimate, provides:

(3) $100,000 for approximately 3,704 days travel at $27 per day and $9,000 for motor pool travel.

(4) $5,000 for transportation costs incident to shipment of equipment.

(5) $10,000 for general telephone, $2,000 for long distance and $1,000 for teletype; $8,000 for rental of equipment.

(6) $30,000 for printing of special management improvement materials and other miscellaneous printing.

(7) $25,000 other contractual services.

(8) $10,000 normal office supplies; $1,000 for operating supplies; $2,000 for technical publications.

(9) $27,000 for additional requirements and the replacement of obsolete equipment.

Mr. EVINS. You mentioned again the salary increase act and you are asking for $526,000 increase for Communications Services which has been discussed.

There is a lot of text on this item.

MOTOR VEHICLE MANAGEMENT

We will put pages 228 and 229 in the record.

(The pages follow:)

3. Motor vehicle management

	Amount	Average employment		
		Department	Field	Total
1963	$281,000	12.9	12.5	25.4
Change	+39,000		+2.0	+2.0
1964	320,000	12.9	14.5	27.4

HIGHLIGHT

"Governmentwide policies and procedures are developed for improving the overall efficiency of the operation of the Government-owned motor vehicle fleet, and assisting the various Federal agencies with motor equipment management." (From the budget for 1964.)

JUSTIFICATION

Total cost or estimate:

1962	$223,048
1963	281,000
1964	320,000

The need for accelerating the program involving GSA motor vehicle management responsibility is reflected in the growth of the Federal motor vehicle fleet from approximately 238,000 units in 1962 to an estimated 254,000 in 1963 and 264,000 in 1964. These represent general and special purpose motor vehicles in the United States and exclude tactical and construction equipment, and all motor vehicles overseas.

During 1962, two studies of agencies' managerial and operational policies and methods were completed, bringing to 11 the number of completed studies. Implementation of agreed-to-recommendations will bring savings in equipment investment of about $1.6 million, and in annual operating costs of $1.8 million by the elimination of management deficiencies such as: low utilization of vehicles (sedans operating 1,222 miles to 2,100 miles per year); over-milage vehicles costing excess maintenance of ½-cent per mile; 1½- to 2½-ton trucks operating where ½-ton pickup would have performed the transportation requirement; military-type equipment being used at double the operating cost of commercial-type equipment; manufacturer's warranty being ignored; inaccurate management reports (shop labor shown as $823,000 when actual cost was $2,500,000); and no preventive maintenance program.

A motor vehicle warranty and acceptance guide issued in 1962 resulted in a savings to the Government of approximately $500,000. Also, a new preventive maintenance program was tested in two interagency motor pools and proved so successful that the program is being placed in operation in all interagency motor pools, and will be made available to all agencies in 1963. Procedural and operational guides were issued covering (a) chassis lubrication of Government motor vehicles; and (b) Standard form 97, certificate of release of motor vehicles.

This activity also spearheaded the State-Armed Forces-Federal traffic safety workshops. It sponsored, with industry and interagency representatives, five Interagency Motor Equipment Advisory Committee meetings for improving motor equipment and driver training.

During 1963, agencies will be assisted at field locations in adopting the new preventive maintenance program for motor vehicles. Federal agencies will be provided with a modern driver evaluation and improvement program designed to assist agencies in taking action to correct driver mental attitude, physical defects, and poor driver habits. State safety coordinators will be aided in setting up safety workshops to promote defensive driving within the States. Activity is also programed to issue the following guides: (*a*) battery care and warranty; (*b*) motor vehicle cooling systems; and (*c*) driver evaluation and improvement program. Technical assistance will be furnished to industry and Federal agencies in providing the information necessary in developing motor equipment required to meet the Government transportation requirements.

Five Interagency Motor Equipment Advisory Committee meetings will be sponsored with industry and interagency representatives. Liaison will be maintained with Federal agencies, States, and local governments on safe operation of the Federal fleet.

During 1964, it is planned to continue the development of Government motor vehicle safety programs, including preparation and publication of driver-improvement pamphlets and brochures, updating, and promulgating driver training programs, relating such programs to determining training needs, and meeting these needs by the study of evaluations of sociological research and human engineering in a motor vehicle accident-prevention program. Management technicians will continue to study Federal agencies' motor equipment management to assist in reducing operating costs and in increasing management efficiency. It is planned to emphasize and expand managerial assistance to agencies by the preparation and issuance of guides for motor vehicle operation maintenance, and management, which will contain the most modern industry and commercial fleet management practices.

The motor vehicle safety program will be based on a four-point program: (1) safe operating equipment; (2) driver training; (3) driver testing; and (4) centralized accident data, which is in accordance with the President's highway safety program.

Of the $39,000 increase reflected in this estimate, $12,000 is attributable to the Federal Salary Reform Act of 1962.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $225,000 provides for 28 permanent positions as shown below:

	1962			1963			1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
Total positions	12.0	8.0	20.0	13.0	15.0	28.0	13.0	15.0	28.0
Average employment	11.3	7.6	18.9	12.9	12.5	25.4	12.9	14.5	27.4

Other objects: $65,000 provides:

(1) $18,500 for personnel benefits, including $16,100 retirement contributions, $1,400 health benefits, and $1,000 group insurance.

The remainder of $46,500, or 14.5 percent of total estimate, provides:

(2) $30,000 for approximately 1,111 days travel at $27 per day and $1,200 for motor pool travel.

(3) $1,800 communications; $10,000 printing.

(4) $1,500 supplies and materials and $2,000 other services.

Public Utilities Services

Mr. Evins. Mr. Reporter, put pages 231 and 232 on Public Utilities Services in the record.

(The pages referred to follow:)

4. Public utilities services

	Amount	Average employment		
		Department	Field	Total
1963	$125,000	10.9	----------	10.9
Change	+48,000	+4.3	----------	+4.3
1964	173,000	15.2	----------	15.2

HIGHLIGHT

"Negotiations are conducted with public utilities companies on behalf of executive agencies and technical assistance is rendered in connection with regulatory proceedings." (From the budget for 1964.)

JUSTIFICATION

Total cost or estimate:

1962	$131,699
1963	125,000
1964	173,000

The limited resources available for this activity have been applied mostly to negotiation and representation activities where there exists a potential for accomplishments which can be measured in dollars. In 1962, GSA participated in three formal utility rate proceedings in which decisions have not yet been rendered. Avoidance of rate increases or refunds in these cases may be as much as $600,000.

In 1962, 6 contracts were negotiated or renegotiated, 700 rate or billing reviews were made, and 2 special Government rates were negotiated. In addition, exhibits and testimony were sponsored in two formal rate proceedings.

A substantial backlog still exists in the field of areawide contracts. Of the 120 cities with a population of 100,000 or more, GSA has electric contracts in only 35 cities, gas contracts in 24, steam contracts in 10, and water contracts in 4. Generally, representation services are also provided to the Department of Defense in public utility cases.

The increase of five positions in Central Office requested for 1964 is for the negotiation of additional areawide and special contracts, for further reviews of rates and agency utilization practices, and statistical analyses of billings and rates. Because of the limitation on the availability of experienced utilities specialists it is planned to fill several of the additional positions with qualified college graduates who will be trained in this field.

Estimate for 1964 includes $13,000 attributable to the Federal Salary Reform Act of 1962.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing:
$146,000 for 17 permanent positions, all in central office
Other objects:
$27,000 provides:
(1) $11,000 personnel benefits including $9,500 retirement contributions, $900 health benefits, and $600 group insurance.
The remainder of $16,000, or 9.2 percent of total estimate, provides:
(2) $5,600 for approximately 207 days' travel at $27 per day.
(3) $200 for transportation of things.
(4) $2,700 for communications services.
(5) $1,500 for printing.
(6) $3,400 contractual services.
(7) $2,300 normal office supplies.
(8) $300 replacement of office equipment.

Mr. EVINS. What does this include, Mr. Conrad?

Mr. CONRAD. These are services performed by the Public Utilities Division in behalf of all civilian agencies of the Government as well as the military in connection with the management and utilization of public utility services, water sewage, steam, electricity, and all of the other items of public utility services, in addition to communications.

Mr. BOUTIN. One example of this Government-wide activity is the work done for PBS in connection with the big building in New York where we will negotiate for a water rate to supply that building, and by getting a bulk rate we can save a great deal of money.

Service Direction

Mr. Evins. We will take up service direction and the summary material.

Mr. Reporter, put pages 234 through 237 in the record.

(The pages follow:)

f. Service direction

	Amount	Average employment		
		Department	Field	Total
1963	$374,000	21.1	7.4	28.5
Change	+146,900	+.8	+10.5	+11.3
1964	520,000	21.9	17.9	39.8

HIGHLIGHT

Increased responsibilities in the regional offices resulting from the transfer of communications and motor equipment program to Transportation and Communications Service, and the growing demands for services in these areas as well as in transportation and public utilities, make it essential that this activity be extended to the regional offices. The 10 positions are for 3 regional directors and 7 secretaries. The other regions are being staffed in 1963 by reducing employment in program operations.

Total cost or estimate:

1962	$176,361
1963	374,000
1964	520,000

Estimate for 1964 includes $39,000 attributable to the Salary Reform Act of 1962.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $428,000 for 42 permanent positions, distributed as follows:

	1962	1963	1964
Central office	18.0	22.0	22.0
Regional offices		10.0	20.0
Total positions	18.0	32.0	42.0
Average employment	14.2	28.5	39.8

Other objects: $92,000 provides:

(1) $32,000 for personnel benefits, including $27,800 retirement contribution, $2,700 health benefits, and $1,500 group insurance.

(2) $19,700 postage fees.

The remainder of $40,300, or 7.8 percent of total estimate, provides:

(3) $18,000 for approximately 620 days travel at $29 per day, and $1,000 motor pool travel.

(4) $5,300 communications services.

(5) $6,000 for printing.

(6) $6,000 contractual services.

(7) $4,000 normal office supplies.

Positions by grade and average employment

Grade	Actual, 1962			Program, 1963			Request, 1964		
	Department	Field	Total	Department	Field	Total	Department	Field	Total
GS–18	1.0		1.0	1.0		1.0	1.0		1.0
GS–17	1.0		1.0	2.0		2.0	2.0		2.0
GS–16	4.0		4.0	2.0		2.0	2.0		2.0
GS–15	9.0	1.0	10.0	14.0	7.0	21.0	14.0	10.0	24.0
GS–14	24.0	6.0	30.0	25.0	7.0	32.0	25.0	7.0	32.0
GS–13	28.0	12.0	40.0	35.0	18.0	53.0	45.0	18.0	63.0
GS–12	17.0	23.0	40.0	22.0	25.0	47.0	30.0	42.0	72.0
GS–11	11.0	26.0	37.0	17.0	29.0	46.0	22.0	44.0	66.0
GS–10		2.0	2.0		1.0	1.0		1.0	1.0
GS–9	15.0	28.0	43.0	16.0	26.0	42.0	17.0	32.0	49.0
GS–8	2.0	2.0	4.0	2.0	2.0	4.0	2.0	2.0	4.0
GS–7	12.0	14.0	26.0	17.0	16.0	33.0	22.0	15.0	37.0
GS–6	8.0	2.0	10.0	10.0	3.0	13.0	10.0	12.0	22.0
GS–5	19.0	19.0	38.0	24.0	19.0	43.0	24.0	19.0	43.0
GS–4	14.0	20.0	34.0	8.0	25.0	33.0	8.0	27.0	35.0
GS–3	9.0	13.0	22.0	8.0	13.0	21.0	8.0	14.0	22.0
Full-time positions	174.0	168.0	342.0	203.0	191.0	394.0	232.0	243.0	475.0
Average employment:									
Full-time	153.3	161.6	314.9	193.9	182.0	375.9	221.1	226.0	447.1
Part-time	.6	.2	.8		.2	.2			
Total	153.9	161.8	315.7	193.9	182.2	376.1	221.1	226.0	447.1

Classification by objects

	Actual, 1962	Program, 1963	Request, 1964
Personnel compensation:			
Departmental	$1,355,382	$1,804,400	$2,172,000
Field	1,182,808	1,440,600	1,906,000
11 Total personnel compensation	2,538,190	3,245,000	4,078,000
Other objects:			
12 Personnel benefits	187,145	243,100	305,500
21 Travel	61,525	99,000	186,300
Travel (motor pool)	5,908	14,600	20,100
22 Transportation of things	2,778	2,800	7,000
23 Rents and utility services	7,580	8,000	8,000
Communication services	52,470	67,400	89,000
24 Printing and reproduction	47,486	100,200	79,200
25 Other services	579,803	661,600	964,200
26 Supplies and materials	41,919	41,600	51,400
31 Equipment	282,257	133,700	81,300
32 Lands and structures			
Total, other objects	1,268,871	1,372,000	1,792,000
Total, obligations	3,807,061	4,617,000	5,870,000
Position data:			
Average salary, all positions	8,043	8,837	8,823
Average grade, GS positions	9.2	9.5	9.7

SUMMARY STATEMENT OF "OTHER OBJECTS" FOR 1964

Although amounts for obligations by objects are explained in justifications of each activity, objects other than personnel compensation are summarized below. Of the $5,870,000 estimate for 1964, $4,078,000 is for personnel compensation and $1,792,000 for other objects as follows:

12 Personnel benefits, $305,500: $264,400 for direct contribution to the retirement fund; $26,000 health benefits; and $15,100 group insurance.

21 Travel and transportation of persons, $206,400: $32,700 for approximately 1,211 days travel at $27 per day in connection with transportation activities; $100,000 for approximately 3,704 days travel at $27 per day in connection with communications activities; $30,000 for approximately 1,111 days travel at $27 per day for motor vehicle management activities; $5,600 for approximately 207 days travel at $27 per day in connection with public utilities activities; and $18,000 for approximately 620 days travel at $29 per day for general supervision and administration of all TCS programs; $20,100 for motor pool services.
22 Transportation of things, $7,000: $5,000 for transportation of equipment in connection with pilot model testing program; $2,000 for miscellaneous transportation costs.
23 Rents, communications, and utilities, $97,000: $8,000 for rental of equipment; $69,300 for normal telephone and teletype services; $19,700 for postage fees.
24 Printing and reproduction, $79,200: For printing special management improvement material and other miscellaneous printing.
25 Other services, $133,000: $100,000 in conjunction with installation and testing of pilot model program; $16,000 for moving and maintenance services reimbursable to BMF, and repair services to GSF. Balance for miscellaneous other contractual services.
25 Payments to administrative operations fund, $811,000: For administrative operations necessary to support the program.
25 Services of other agencies, $20,200: For health room costs and security investigations.
26 Supplies and materials, $51,400: $42,400 for normal office supplies, $2,500 operating supplies, and $6,500 for technical publications.
31 Equipment, $81,300: $50,000 for pilot model equipment; balance for replacement of obsolete equipment.

Mr. EVINS. Any questions?

Mr. OSTERTAG. In this general activity, is it not fair to say that your increase over 1963 of approximately $1.2 million is primarily due to the wage increase and increase in personnel?

Mr. BOUTIN. Almost exclusively. The small item for research and development would be the addition to that.

Mr. OSTERTAG. If I figure correctly, you have a total increase of 71 over last year in personnel?

Mr. CONRAD. Eighty-one, sir.

Mr. THOMAS. Gentlemen, we will see you in the morning at 10 o'clock.

FRIDAY, FEBRUARY 22, 1963.

DEFENSE MATERIALS SERVICE, GENERAL SERVICES ADMINISTRATION

WITNESSES

BERNARD L. BOUTIN, ADMINISTRATOR
WILLIAM P. TURPIN, ASSISTANT ADMINISTRATOR FOR FINANCE AND ADMINISTRATION
MAURICE J. CONNELL, COMMISSIONER
JOHN G. HARLAN, JR., DEPUTY COMMISSIONER
GEORGE K. CASTO, ACTING ASSISTANT COMMISSIONER, OFFICE OF MATERIALS MANAGEMENT
LOUIS BROOKS, ASSISTANT TO DIRECTOR OF FINANCIAL MANAGEMENT, OFFICE OF FINANCIAL MANAGEMENT
JAMES P. DURKIN, ASSISTANT GENERAL COUNSEL, OFFICE OF EMERGENCY PLANNING
WILLIAM N. LAWRENCE, CHIEF, RESOURCES AND ANALYSIS DIVISION, OFFICE OF EMERGENCY PLANNING

SUMMARY OF DEFENSE MATERIALS FUNCTIONS

Mr. THOMAS. Let the committee come to order.
This morning we will consider Defense Materials Service.
Mr. Reporter, include in the record pages 238 and 239.
(The pages follow:)

FUNCTIONS PERFORMED BY THE DEFENSE MATERIALS SERVICE

The Defense Materials Service is responsible for administering the national and supplemental stockpiles of strategic and critical materials, and Defense Production Act and other industrial raw materials and machine tool programs. These programs provide reserves of such materials and industrial equipment for use in an emergency or expand essential production of items needed for an emergency. Specifically, this Service—

Procures for, maintains, and manages the national stockpile and administers Defense Production Act metals, minerals, and machine tool expansion programs pursuant to Office of Emergency Planning policy and program directives;

Administers the national industrial equipment reserve for use of defense-supporting industries in an emergency, in accordance with Department of Defense directives and policies;

Provides technical advice, storage, and other services to the Commodity Credit Corporation, Department of Agriculture, in connection with acquisition of strategic or other materials under the CCC barter program, and maintains and manages these materials after transfer to the U.S. supplemental stockpile by CCC;

Administers the lead-zinc mining stabilization program, which provides for stabilization payments to small domestic producers of lead and zinc for the calendar years 1962 through 1965 pursuant to delegation from the Department of Interior;

Operates civil defense depots and provides other services in connection with medical, radiological, and engineering supplies and equipment for the Office of Civil Defense, Department of Defense, and the Public Health Service, Department of Health, Education, and Welfare; and

Provides storage and other services to the Department of Defense under the civil defense shelter provisioning program.

The national stockpile, supplemental stockpile, and national industrial equipment reserve programs are financed through the appropriation "Strategic and critical materials." The Defense Production Act programs are financed under the Defense Production Act borrowing authority, and all other programs are financed by transfers of funds from other agencies to GSA.

Defense Materials Service

Summary of new obligational authority and average employment

	New obligational authority		Average employment					
			Total		Central office		Field	
	1963	1964	1963	1964	1963	1964	1963	1964
A. NEW OBLIGATIONAL AUTHORITY AND RELATED EMPLOYMENT								
Strategic and critical materials	$18,100,000	$28,145,000	576.7	570.8	102.0	100.5	474.7	470.3
1. Acquisition of materials	1,000,000	1,250,000						
2. Inventory management	12,402,000	22,184,000	205.8	210.8			205.8	210.8
3. National industrial equipment reserve	1,621,000	1,521,000	158.4	151.0			158.4	151.0
4. Operating expenses (under limitation)	3,077,000	3,190,000	212.5	209.0	102.0	100.5	110.5	108.5
Defense Materials Service	2,143,000	2,230,000	212.5	209.0	102.0	100.5	110.5	108.5
Administrative operations	934,000	960,000						
B. OTHER EMPLOYMENT								
Transfers:								
Custody of bartered materials	(1)	(1)	77.3	73.4	18.9	17.4	58.4	56.0
Civil defense warehousing	(1)	(1)	489.1	670.8	22.5	27.5	466.6	643.3
Lead and zinc stabilization	( )	(1)	14.0	17.8	7.0	9.0	7.0	8.8
Revolving funds: DPA revolving fund	(1)	(1)	35.5	31.5	18.6	18.5	16.9	13.0
Subtotal, other employment			615.9	793.5	67.0	72.4	548.9	721.1
Total employment			1,192.6	1,364.3	169.0	172.9	1,023.6	1,191.4

[1] Funds available not considered as new obligational authority in budget schedules.

Strategic and Critical Materials

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	3,305	3,941	4,019
	Positions other than permanent	83	9	8
	Other personnel compensation	11	10	43
	Total personnel compensation	3,399	3,960	4,070
12	Personnel benefits	253	303	305
21	Travel and transportation of persons	78	90	91
	Payment to interagency motor pools	40	43	43
22	Transportation of things	2,239	1,514	3,685
23	Rent, communications, and utilities	86	132	131
24	Printing and reproduction	21	21	20
25	Other services	8,458	7,003	8,567
	Payment to administrative operations fund	929	934	960
	Services of other agencies	3,008	3,204	3,093
26	Supplies and materials	13,194	848	7,137
31	Equipment	37	48	43
32	Lands and structures	190		
	Total obligations	31,932	18,100	28,145

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	535	583	577
Full-time equivalent of other positions	17	2	1
Average number of all employees	517	577	571
Number of employees at end of year	493	576	564
Average GS grade	7.9	8.1	8.2
Average GS salary	$7,174	$7,888	$7,987
Average salary of ungraded positions	$5,866	$5,849	$5,844

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Acquisition of materials:			
(a) New materials	889	1,600	1,400
(b) Upgrading materials	3,329	300	400
Total, acquisition of materials	4,218	1,900	1,800
2. Inventory management:			
(a) Rotation of materials	12,437	4,000	5,000
(b) Storage of materials	11,677	10,070	11,000
(c) Disposal of materials	687	1,000	1,400
Total, inventory management	24,801	15,070	17,400
3. National industrial equipment reserve:			
(a) Transportation, processing, and storage	1,919	1,608	1,510
4. Operating expenses:			
(a) Service direction	345	438	458
(b) Program	1,530	1,700	1,742
(c) Administrative operations	929	934	960
Total, operating expenses	2,804	3,072	3,160
Total program costs, funded [1]	33,742	21,650	23,870
Change in selected resources [2]	−1,810	−3,550	4,275
Total obligations	31,932	18,100	28,145
Financing:			
Unobligated balance brought forward (−)	−1,238	−260	−260
Recovery of prior year obligations (−)	−260		
Unobligated balance carried forward	260	260	260
Unobligated balance lapsing	9,283		
New obligational authority	39,977	18,100	28,145
New obligational authority:			
Appropriation	40,000	18,000	28,145
Transferred to "Salaries and expenses, Office of Administrator" (5 U.S.C. 630d) (−)	−23		
Appropriation (adjusted):			
General fund	39,977		
Special fund		18,000	28,145
Proposed supplemental due to pay increases (special fund)		100	

[1] Includes capital outlay as follows: 1962, $36,000; 1963, $230,000; 1964, $50,000. Excludes adjustment of prior year costs, $63,000.

[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders 1961, $9,819,000; (1962 adjustments −$706,000) 1962, $7,303,000; 1963, $3,753,000; 1964, $8,028,000.

Mr. THOMAS. I think we should include pages 240, 241, 242, 243, and 244, leaving out the appropriating language.

(The pages referred to follow:)

STRATEGIC AND CRITICAL MATERIALS

Summary reconciliation of 1964 estimate to 1963 funds

1963 appropriation in annual act	$18,000,000
Proposed supplemental due to pay increase	+100,000
Comparative total for 1963	18,100,000
Decreases in 1964: Maintenance of industrial equipment reserve	−100,000
Increases in 1964:	
Upgrading materials	250,000
Rotation of materials	7,096,000
Storage of materials	1,857,000
Disposal of materials	829,000
Operating expenses	113,000
Total	10,145,000
1964 estimate	28,145,000

Analysis by activities

Activities	1963 program	Decreases	Increases	1964 estimate
1. Acquisition of materials	$1,000,000		$250,000	$1,250,000
2. Inventory management	12,402,000		9,782,000	22,184,000
3. National industrial equipment reserve	1,621,000	$100,000		1,521,000
4. Operating expenses	3,077,000		113,000	3,190,000
Total	18,100,000	100,000	10,145,000	28,145,000

1963 appropriation	$18,000,000
Pay act supplementary	+100,000
1963 comparative	18,100,000
Change	+10,045,000
1964 estimate	28,145,000

GENERAL STATEMENT

Organization and operations.—"The Defense Materials Service acquires and administers national stockpile inventories pursuant to the Strategic and Critical Materials Stock Piling Act, and has custody of the supplemental stockpile established by the Agricultural Trade Development and Assistance Act of 1954. Programs are administered in accordance with guidelines established by the Office of Emergency Planning. This Service also administers the inventory of machine tools and industrial manufacturing equipment established under the National Industrial Reserve Act of 1948. The Department of Defense makes selections for the reserve and provides program guidance.

"The 1964 obligational program of $28.1 million is to provide $1.2 million for new material acquisition and upgrading of existing materials required to meet stockpiling objectives, $22.2 million for inventory management and rotation of material subject to deterioration, $1.5 million for national industrial equipment reserve activities, and $3.2 million operating expenses. Increases in 1964 are provided for all activities except national industrial equipment reserve."

Status of acquisition program.—"In arriving at requirements to meet stockpile objectives, all U.S. Government inventories of strategic materials in GSA custody are taken into account. Data below reflect the extent to which national stockpile objectives as of June 30, 1962, are provided: (*a*) from financing under the Strategic and Critical Materials Stock Piling Act, and (*b*) under all U.S. Government programs involving strategic materials.

"Maximum objectives are valued at $4,299 million. June 30, 1962, prices have been used."

Status of acquisition—Material in inventory and on order

[In millions of dollars]

	1962 actual		1963 estimate		1964 estimate	
	National stockpile	All Government programs	National stockpile	All Government programs	National stockpile	All Government programs
In inventory: Maximum objectives	3,909.9	4,266.0	3,912.5	4,275.0	3,913.2	4,293.6
On order: Maximum objectives	1.9	8.3		17.9		
Total maximum objectives	3,911.8	4,274.3	3,912.5	4,292.9	3,913.2	4,293.6
Balance to be acquired: Maximum objectives	387.2	24.7	386.5	6.1	385.8	5.4

"Fair value of personal property received from other appropriations or funds without cost for use by GSA is as follows: 1962, $78,000; 1963, $262,000; 1964, $242,000." (From the budget for 1964.)

Program by activities

	1962	1963	1964
1. Acquisition of materials:			
(a) New materials	$1,048,586	$750,000	$750,000
(b) Upgrading materials	415,469	250,000	500,000
Total acquisition of materials	1,464,055	1,000,000	1,250,000
2. Inventory management:			
(a) Rotation of materials (gross)	13,410,754		7,096,000
(b) Storage of materials	11,741,045	11,020,000	12,877,000
(c) Disposal of materials	687,498	1,382,000	2,211,000
Total inventory management	25,839,297	12,402,000	22,184,000
3. National industrial equipment reserve: Transportation, processing, and storage (gross)	1,821,023	1,621,000	1,521,000
4. Operating expenses:			
(a) Service direction	345,385	438,800	460,000
(b) Program	1,532,883	1,704,200	1,770,000
(c) Administrative operations	929,300	934,000	960,000
Total operating expenses	2,807,568	3,077,000	3,190,000
Total obligations	31,931,943	18,100,000	28,145,000

The estimate for 1964 includes $375,000 for increased pay costs as a result of the Federal Salary Reform Act of 1962.

Relationship of other programs to the Strategic Materials Activity.—In addition to its functions under the S. & C. M. Act, GSA has responsibility for contract administration and/or custody of inventory for defense material programs under the Defense Production Act of 1950, as amended, and the Agricultural Trade Development and Assistance Act of 1954.

Defense Production Act

This act authorized financial assistance to assure expansion of production capacity and of material supply, including stockpiling, necessary for our defense. Materials procurement requiring a long-term contract and lead time of more than a year were contracted for under DPA rather than directly from stockpiling appopriations.

As one of the inducement for expanding production, most contracts provided a guaranteed market for the production from expanded facilities. As a result of reductions in civilian, military and stockpiling requirements, much of the production was delivered to GSA and is being held as DPA inventory.

Progress has been made in disposing of materials in this inventory primarily by sales to other Government agencies and industry and steps are being taken to increase and accelerate the disposal program wherever this can be accomplished without undue effect on the market or detriment to the Government's interest.

Current and projected status of DPA inventory follows:

[In millions]

	Actual, 1962	Estimate, 1963	Estimate, 1964	Estimate, 1965
Inventory, beginning of year	$1,484	$1,500	$1,489	$1,464
Deliveries during year	57	28	9	4
Subtotal	1,541	1,528	1,498	1,468
Sales:				
To industry	25	4	3	3
To other Government agencies	13	26	25	25
Total sales	38	30	28	28
Profit or loss (−) on sales	−3	−9	−6	−6
Inventory, end of year	1,500	1,489	1,464	1,434

Based on the above deliveries, cash requirements for 1962 through 1965 are as follows:

[In millions]

	Actual, 1962	Estimate, 1963	Estimate, 1964	Estimate, 1965
Cumulative net expenditures, beginning of year	$2,058	$2,069	$2,119	$2,194
Deliveries during year (GSA)	57	28	9	4
Treasury interest (GSA)	4	53	102	117
Other expenditures, net (all agencies)	−50	−31	−36	−23
Cumulative net expenditures, end of year	2,069	2,119	2,194	2,292
Add working cash requirement	10	5	3	
Total financing required	2,079	2,124	2,197	2,292
Available under borrowing authority and appropriation	2,209	2,209	2,209	2,209
Balance	+130	+85	+12	−83

The Strategic and Critical Materials appropriation language now in effect and requested without change for 1964 provides for the transfer at fair market value of either DPA inventory materials or excess materials in the national stockpile to contractors as payment for upgrading national stockpile materials.

Agriculturel Trade Development and Assistance Act

This act provides for barter or exchange of surplus agricultural commodities for strategic materials.

Based on an agreement entered into on August 18, 1955, GSA advises CCC on prices and other technical matters involved in acquisition of strategic materials and performs or contracts for inspection, handling, transportation, and maintenance in storage of these materials.

Materials acquired under the barter program are transferred to the supplemental U.S. stockpile periodically as provided by section 206(a) of the Agricultural Act of 1956. Acquisition cost of strategic materials in the CCC and supplemental U.S. stockpile inventories as of June 30, 1962, is as follows:

Commodity Credit Corporation	$99,869,800
U.S. supplemental stockpile	[1] 1,141,123,200

[1] Includes $27.5 million transferred under Public Law 84–733.

These inventories, and the barter program as a potential source of supply, are taken into consideration in completion of stockpile objectives.

No funds are provided under the S. & C. M. appropriation for reimbursement to CCC for cost of materials transferred. However, expenditures for custody of the supplemental U.S. stockpile are included in these estimates under the inventory management activity.

In addition to the above active programs, GSA acquired a separate tin inventory costing $9.5 million representing that portion of the FFC transfer under Public Law 84–608 which was excess to objectives and therefore not included in the national stockpile. GSA has disposed of this inventory.

PROCUREMENT OF JEWEL BEARINGS

Mr. THOMAS. You are only going to procure one item and that is what?

Mr. BOUTIN. Jewel bearings, Mr. Chairman.

Mr. THOMAS. Do we have some maintenance and repair money in this budget for that?

Mr. BOUTIN. In our supplemental, Mr. Chairman.

Mr. THOMAS. We haven't got to that yet?

Mr. BOUTIN. No, sir.

PROGRAM FOR 1964—STRATEGIC MATERIALS

Mr. THOMAS. Look at this table on page 239. It tells the tale. You want to spend about $1,250,000 next year for acquisition of new materials as against $1 million this year. It is for that one item, jewel bearings.

You have inventory management here, $22,184,000 in 1964 against $12,402,000 this year. The other items we will keep separate. We will take a separate look at those.

The acquisition of materials under employment, you set it up as none. Inventory management shows 205 in 1963 and 210 for 1964, an increase of about 5 positions.

The table on 240 shows the increase. Your appropriation last year was $18 million. You have a supplemental pending of $100,000 for pay increase. Your entire bill goes up to $28,145,000, which is a net increase of about $10,045,000 in round figures.

Look at your breakdown in the middle of page 240.

Upgrading of materials increases $250,000 over this year. Storage of materials increases $1,857,000; disposal of materials, $829,000; and operating expenses, $113,000.

With that in mind, let's take a look at the second paragraph on 241. (Reading:)

> The 1964 obligational program of $28.1 million is to provide $1.2 million for new material acquisition and upgrading of existing materials required to meet stockpiling objectives, $22.2 million for inventory management and rotation of material subject to deterioration, $1.5 million for national industrial equipment reserve activities, and $3.2 million operating expenses. Increases in 1964 are provided for all activities except national industrial equipment reserve.

We will go into that item later.

Give us a rundown on the status of the stockpile without going into your tables. The tables are in the record but give us a narrative form. Turn it over in your mind, how we can avoid putting up 1 penny of fresh money. I have a plan in mind but I want to see what you have in mind as to how we can do it. We don't want to hurt anything or anybody or any program. But with critical materials growing out of everybody's ears and with at least twice as much as we need under any stretch of the imagination to satisfy our national needs, I can't see why it is wise to appropriate $28 million in fresh money.

The table on 242 is quite revealing. You have the program by activities, your acquisition of materials, your upgrading, your inventory management. That is your biggest cost of $22 million.

What is the status of the program? First, we are cognizant of the appropriating language with regard to rotating materials. If it is mandatory that you replace materials then it would have to be appropriated funds of one kind of another.

ITEMS TO BE ROTATED AND PROCEEDS DERIVED IN 1964

You are going to rotate what in 1964?

Mr. BOUTIN. Two items, abaca and sisal. The other items are all upgrading.

(The following was subsequently submitted for the record:)

This might be made clear that there are receipts from the rotation program. We estimate that $5,693,000 will be derived from rotation sales in 1964, and be deposited in the Treasury.

ACQUISITION COST AND MARKET VALUE OF STOCKPILE

Mr. THOMAS. Tell us about the stockpile and where we stand.

Mr. CONNELL. The acquisition cost of the stockpile is $8,777,367,500.

Mr. THOMAS. You set that out in your tables very well. Put your finger on it. That is under inventory?

Mr. CONNELL. And also the market value of those materials is $7,579,157,600.

EXCESS MATERIALS

The excess materials on hand are $4,364,014,800 and the market value of those materials is $3,269,397,500. We have reached our objectives for all the materials with the exception of 11, and we have 12 excess materials that make up most of these.

Mr. THOMAS. At this point in the record detail the 12 excess materials, how much you have and how much you really need for the stockpile. Also tell how much we are going to add to the stockpile this year and what is its source.

Mr. CONNELL. The maximum objective stockpile for aluminum is 1.2 million short tons. The quantity of excess is 769,986 tons. The acquisition cost of that was $389,686,700 and the market price of that is $346,493,700.

Mr. THOMAS. How much loss is that on aluminum alone?

Mr. CASTO. On the total excess it would be a loss of $43,193,000.

Mr. THOMAS. That doesn't quite tell the tale on aluminum. Let's finish that tale and then you can take up the other 11.

Are all your contracts for aluminum completed yet?

HARVEY ALUMINUM CONTRACT

Mr. CONNELL. No, sir. As of December 31, 1962 we have one outstanding contract for aluminum with the Harvey Aluminum Co. and estimated deliveries from that contract total 49,975 short tons. The amount of money involved is $21.6 million.

Mr. THOMAS. How much a ton?

Mr. CASTO. $450 a ton.

Mr. THOMAS. What is the market value on today's market?

Mr. CASTO. That is the market value today. It is deliverable to us at market value and that is the market value.

Mr. THOMAS. Have you tried to renegotiate this contract? You don't need the aluminum by any means, do you?

Mr. CONNELL. No, sir, we do not need the aluminum.

Mr. THOMAS. Have you tried to renegotiate this contract?

Mr. CONNELL. We have internally tried to renegotiate the contract.

Mr. THOMAS. What about externally?

Mr. BOUTIN. I would guess we have talked to the Harvey people at least 50 times in the past year alone. We have been able to get out of some of the provisions of the contract. We were able to get them to get their banks securing their mortgages to agree to give up the

guarantee of the Federal Government to the tune of about $14 million. We also got them to agree to go ahead and finance a new facility in the Virgin Islands without the Government guarantee, where we were subject to $21 million.

Mr. THOMAS. Who is going to own those facilities when this contract is terminated? How did it come into existence? It was through a DPA loan.

Mr. BOUTIN. That is correct, sir.

Mr. THOMAS. Who is going to own the facilities when the contract is completed?

Mr. BOUTIN. Harvey is going to own them.

PHILOSOPHY OF THE HARVEY CONTRACT

Mr. THOMAS. Roughly, what was the thinking behind the contract, how was it worked out?

Mr. BOUTIN. The basic philosophy of the contract was to develop additional aluminum supply facilities.

Mr. THOMAS. That wasn't peculiar to Harvey alone. You had several other aluminum contracts.

Go ahead and spell out the philosophy of the contract.

Mr. CASTO. The Harvey contract was entered into on the third phase of expansion of production of——

Mr. THOMAS. What we are interested in is the philosophy behind the contract. What was that philosophy? You needed aluminum?

Mr. CASTO. That is correct.

Mr. THOMAS. The aluminum people came to you and said, "If you will build a plant where we can amortize it over a period of time by taking so many tons, we will do it?"

Mr. CASTO. That is correct.

Mr. THOMAS. It was a free ride for the aluminum people?

Mr. CASTO. No question.

Mr. THOMAS. When you finish buying the aluminum and they finish paying for the plant by their sales to you, all you have is the aluminum and they have the plant free? Is that what it amounts to?

Mr. CASTO. That is exactly what is amounts to.

VALUE OF HARVEY PLANT

Mr. THOMAS. What is the estimated value of the plant? How long will it take you to complete the contract, a year and a half or what?

Mr. CONNELL. November of next year.

Mr. THOMAS. What will be the replacement value or the market value of the plant in November of next year?

Mr. CASTO. Well, it would be a guess pure and simple, but I would guess $55 million.

Mr. THOMAS. What did the plant cost to begin with?

Mr. CASTO. Aproximately $51,500,000 to begin with.

Mr. THOMAS. All right, go ahead now.

DPA BORROWING AUTHORITY

Mr. CASTO. It was a DPA contract entered into September 13, 1955.

Mr. THOMAS. That is back-door spending and the Congress never had one iota of authority. Congress divested itself of the authority by voting the back-door spending.

What unused authorized obligation is left in your DPA spending now?

Mr. CONNELL. At the end of 1964 I believe it is $12 million, sir.

Mr. THOMAS. What is it as of January 1, 1963?

Mr. CASTO. Total DPA?

Mr. THOMAS. The unobligated authorized borrowing power from your DPA funds. What was it to start with?

Mr. HARLAN. It was $2.1 billion, Mr. Chairman. As of December 31 the available balance for borrowing is $114,215,000.

Mr. THOMAS. On January 1, 1963?

Mr. HARLAN. Yes, sir.

Mr. THOMAS. And you say at the end of 1964 it will be $12 million. What are you spending that money for?

Mr. HARLAN. The Harvey contract——

Mr. BOUTIN. Isn't a lot of it going into interest?

Mr. HARLAN. A lot of it is going to interest.

Mr. THOMAS. How many unfilled contracts do you have left, Harvey, Hanna, who else, that is nickel?

Mr. HARLAN. We have the contract with Freeport in Cuba but that is inactive.

Mr. BOUTIN. Harvey and Hanna are the only two active contracts, Mr. Chairman.

COST OF AMERICAN FACILITIES IN CUBA

Mr. THOMAS. What happened to Freeport, didn't they lose their property just like General Services Administration?

Mr. BOUTIN. Yes.

Mr. THOMAS. That cost $85 million when Mr. Castro grabbed your plant.

Mr. BOUTIN. Actually, the value of all the assets of the Federal Government held by GSA that were taken over by Castro and the amount we will claim, is going to be closer to about $135 million.

Mr. THOMAS. How much did your nickel plant alone cost? How much did you have tied up in that alone?

Mr. BOUTIN. That is the nickel plant plus inventory on hand plus mining equipment away from the premise. The plant itself is how much?

Mr. TURPIN. $67.9 million is the net book value.

Mr. THOMAS. What did it cost Freeport?

Mr. BROOKS. Their cost ran over $100 million in their facilities, both in Cuba and Louisiana.

Mr. CASTO. Freeport was a little over $101 million.

OTHER HARVEY COMPANY PLANTS

Mr. EVINS. Where is Harvey building this other aluminum plant outside the United States?

Mr. BOUTIN. That is an alumina facility and it is in the Virgin Islands, the Island of St. Croix. They are also, I understand, building another additional plant in Mississippi or Tennessee.

Mr. CASTO. Tennessee.

Mr. BOUTIN. And of course they bought the Harvey plant, the extrusion plant in Michigan from us for $3,626,100.

EXCESS MATERIALS

Mr. THOMAS. You touched on one excess material, aluminum. Go ahead with the others.

Mr. CONNELL. Chromite metallurgical, the maximum stockpile objective is 2,700,000 short tons. Quantity in excess is 2,626,789. The acquisition cost is $300,630,100 and the market value of that is $213,141,900.

Mr. THOMAS. Insert the remainder of the list in the record at this point.

Mr. CONNELL. Yes, sir.

(The information supplied follows:)

Summary of excess materials as of Dec. 31, 1962—Excess inventories

Commodity	Unit	Maximum stockpile objective	Quantity	Acquisition cost	Market value	Excess by program [1]			1 year consumption quantity	Excess in terms of consumption
						SCM quantity	DPA quantity	Supplemental and CCC quantity		
Aluminum	Short ton	1,200,000	769,986	$389,686,700	$346,493,700		769,986		2,000,000	5 months.
Chromite-met	do	2,700,000	2,626,789	300,630,100	213,141,900	1,098,985	532	1,527,272	700,000	3½ years.
Cobalt	Pound	19,000,000	77,908,455	169,004,900	116,862,600	57,847,933	18,983,504	1,077,018	9,000,000	8¼ years.
Copper	Short ton	1,000,000	133,230	75,447,900	83,236,400	8,351	113,430	11,449	1,600,000	1 month.
Diamond stones	Carat	18,000,000	6,556,217	80,245,700	83,919,500			6,556,217	3,500,000	2 years.
Lead	Short ton	286,000	1,099,631	313,236,700	219,926,200	764,370	7,262	327,999	1,021,000	1 year.
Manganese-met	Short dry ton	6,800,000	3,020,022	215,819,700	186,449,900			3,020,022	1,946,000	1½ years.
Nickel	Pound	323,000,000	123,434,700	108,703,700	94,007,100	11,354,431	112,080,269		220,000,000	6 months.
Rubber	Long ton	750,000	287,438	222,266,200	189,709,100	287,438			480,000	8 months.
Tin	do	185,000	162,290	392,766,100	403,517,800	154,785		7,505	80,000	2 years.
Tungsten (w)	Pound	50,000,000	111,226,496	395,256,300	119,256,200	53,842,775	52,904,383	4,479,338	12,000,000	9 years.
Zinc	Short ton	178,000	1,401,907	392,114,900	322,438,600	1,078,012		323,895	1,200,000	1 year 2 months.
Total, 12 materials	do		9,711,544	3,055,178,900	2,378,959,000					
Total, all other specification excesses	do		9,842,830	736,758,100	651,493,600					
Total, specification grades	do		19,554,374	3,791,937,000	3,030,452,600					
Nonspecification grades	do		3,401,738	395,529,800	141,898,500					
Nonobjective materials	do		248,051	176,548,000	97,046,400					
Total, excess, all inventories	do		23,204,163	4,364,014,800	3,269,397,500					

[1] Detail by commodity is for specification grade materials with objectives.

NOTE.—Of the total excesses, the supplemental stockpile and CCC inventories account for 14.3 million short tons with an acquisition cost of $1,082,148,800 and a market value of $955,245,200.

Mr. THOMAS. Put pages 246 and 247 in the record.
(The pages referred to follow:)

1. Acquisition of Materials

	Amount
1963	$1,000,000
Change	+250,000
1964	1,250,000

HIGHLIGHT

Covers costs of new materials for the national stockpile and of upgrading existing materials to higher use forms in accordance with Office of Emergency Planning directives, including necessary transportation and handling expenses. Comparative costs are as follows:

	1962	1963	1964
(*a*) New materials	$1,048,586	$750,000	$750,000
(*b*) Upgrading materials	415,469	250,000	500,000
Total, cost or estimate	1,464,055	1,000,000	1,250,000

JUSTIFICATION

Strategic and critical materials in all U.S. Government inventories in GSA custody and on order for such inventories are taken into account in determining the amounts of materials to be procured or upgraded for the national stockpile.

Strategic and critical materials are those materials required for essential uses in war emergency, the procurement of which in adequate quantities, quality and time is so uncertain that prior provision for the supply thereof is necessary.

Quantitative objectives are established after study of the estimated availability of U.S. production and imports as against the requirements for the materials in time of emergency for military, atomic energy, defense-supporting and essential civilian needs.

Two stypes of objectives have been established for all stockpile materials: (a) basic objectives, which assume partial dependence during an emergency on areas beyond North America and comparably accessible areas, and (b) maximum objectives, which provide a higher degree of security by completely discounting emergency supply from distant overseas sources.

Materials from foreign sources needed to meet remaining stockpile requirements are expected to be acquired through the Department of Agriculture barter program. Under existing statutes and policies, such materials are transferred to the supplemental stockpile without reimbursement from this appropriation.

No funds are included in this estimate for reimbursable transfers from other Government inventories.

(*a*) *New materials.*—Procurement of strategic and critical materials for national stockpile objectives is limited to jewel bearings in 1963 and 1964. This was also the only item procured in 1962.

"Costs of direct acquisition of materials, including transportation and handling expenses, are as follows (in thousands of dollars):

New materials:

1962 actual	1,049
1963 estimate	750
1964 estimate	750"

(From the budget for 1964.)

The 1964 estimate includes $700,000 for procurement of jewel bearings and $42,000 for accessorial transportation costs and $8,000 for handling costs, the same as in 1963.

"Based on national stockpile objectives and the proposed budget, the status of the 76 materials now on the stockpiling list is as follows:

Materials on hand and on order (June 30, 1962, actual)

	National stockpile, maximum objectives	All Government programs, maximum objectives
Percent completed:		
100	49	65
90 to 99	9	6
75 to 89	4	1
50 to 74	5	3
25 to 49	6	0
Under 25	3	1
Total	76	76

Materials on hand and on order (June 30, 1964, estimated)

	National stockpile, maximum objectives	All Government programs, maximum objectives
Percent completed:		
100	49	71
90 to 99	9	4
75 to 89	4	0
50 to 74	5	1
25 to 49	6	0
Under 25	3	0
Total	76	76"

(From the budget for 1964.)

(*b*) *Upgrading materials.*—"Stockpile materials are upgraded to more usable forms in order to provide a minimum readiness inventory of materials in forms suitable for immediate use to meet the initial surge of demand and abnormal conditions of intensive mobilization. Payment for all processing costs will be made by transfer of excess materials to contractors. The estimate covers only transportation and handling costs involved in upgrading." (From the budget for 1964.)

The general policy providing for a minimum readiness inventory of upgraded forms is set forth in Defense Mobilization Order V–7, revised, issued by OEP. Materials are upgraded only to such a degree as not to impair flexibility of use, and all upgrading is within stockpile objectives which have been established by OEP after interagency advice and consultation. Materials in the stockpile inventory are upgraded only when the cost thereof is less than the cost of new materials.

Mr. THOMAS. We have already noted that the only ones we are going to buy to the tune of $1,250,000 are jewel bearings. This table on 247, materials on hand and on order, that is following out the detailed information on the 12 oversupplied items.

ITEMS IN STOCKPILE

There are 76 items in the stockpile. You are going to reduce some by taking cotton out, is that correct? Are there any more?

Mr. BOUTIN. Cotton is the ony thing we have taken out.

Mr. CASTO. That is correct. We have completely disposed of a number of individual items which are no longer on the list.

Mr. BOUTIN. By sale rather than by transfer.

Mr. CASTO. That is correct.

UPGRADING OF MATERIALS

Mr. THOMAS. On the question of upgrading here, this is worthy of mention. [Reading:]

In 1963 and 1964 planned upgrading will include blister copper to oxygen-free copper, columbite-tantalite ores and concentrates to columbium and tantalum metals and to columbium and tantalum carbide powders, castor oil to sebacic acid, and crude opium to morphine alkaloid.

What is the value after you spend this money?

MORPHINE

What are you going to do with the morphine?

Mr. CASTO. The morphine is upgraded from a crude opium state into its first usable form. You can go in any one of several directions to your various opiates.

Mr. THOMAS. What is the life of that morphine after you upgrade it?

Mr. CASTO. The morphine alkaloid is more readily storable than the crude opium.

Mr. THOMAS. What is the life of it?

Mr. HARLAN. It is indefinite. I do not think it has ever been tested really.

Mr. THOMAS. How much do you have in the stockpile and what do you need? Tell us what it costs. How do you measure morphine, ounces or what?

Mr. CASTO. Pounds of morphine content within total crude.

We have a maximum objective of 172,800 pounds. We have an inventory of 193,577 pounds.

Mr. THOMAS. You are going to refine it. What are you going to get out of it in terms of pounds now?

Mr. HARLAN. We are going to refine 163,500 pounds of crude into 18,000 pounds of alkaloid.

Mr. THOMAS. Is that usable then by doctors?

Mr. HARLAN. Yes. It will be made into doses from that.

Mr. THOMAS. What does it cost to refine a pound of it?

Mr. CASTO. $52 a pound is the conversion cost.

Mr. THOMAS. Who does this for you?

Mr. CASTO. There are three processors who are capable in the United States of upgrading crude opium into morphine alkaloid.

Mr. THOMAS. Who would they be?

Mr. CASTO. They are Penick, Merck, and Mallinkrodt. Those are the three.

Mr. HARLAN. The value of this material will be increased as a result of this upgrading by $840,000.

Mr. THOMAS. How do you arrive at a price for these contracts, competitive bid?

Mr. CASTO. Yes. We go out on the basis of an informal solicitation of proposals and develop it to the maximum extent.

Mr. THOMAS. What about the big drug manufacturers?

Mr. CASTO. Merck is the largest of all the opium processors.

Mr. THOMAS. Not Lilly?

Mr. CASTO. No, sir. He has the largest of all capacities for conversion.

Mr. THOMAS. On your acquisition here your other objects include $482,000 for transportation, $68,000 for contractual services, and $700,000 for new materials.

COPPER

What about blister copper? What do you mean by "blister copper"? I have seen these large slabs with little bumps in them.

Mr. CASTO. That is blister copper.

Mr. THOMAS. You are going to take the blisters out?

Mr. HARLAN. Yes.

Mr. THOMAS. What is the status of your copper? Is that one of your 12 surpluses?

Mr. HARLAN. Yes, sir.

Mr. THOMAS. Why spend this fresh money on it?

Mr. HARLAN. We have a subobjective for oxygen-free copper, Mr. Chairman, which is a highly specialized variety of copper used for electronic purposes which has not yet been fulfilled, so we are taking material——

Mr. THOMAS. Well, you have got twice as much copper as you need anyway. Why spend a fresh dollar on any of it? It is not going to deteriorate, is it?

Mr. HARLAN. No, sir; we are not increasing the amount of copper, we are just changing the form of the copper.

Mr. THOMAS. I understand that, but I asked you why spend one nickel to refine it when you have in the stockpile twice as much copper as you need.

Mr. CASTO. We are proposing to take from the stockpile excess materials and pay the cost of refining the upgrading of all of these materials into finished form. The only thing we are asking for in the form of new money is for transportation of these materials.

Mr. BOUTIN. Transportation and handling.

PAYMENT IN KIND

Mr. CASTO. We endeavor wherever feasible to actually negotiate the payment of transportation by a payment in kind, also using excess materials.

Mr. THOMAS. At this point in the record let's get one point clear. From where are you taking this material? Is it the national stockpile?

Mr. CONNELL. Yes, sir.

Mr. THOMAS. Under the law don't you have to replace what you sell?

Mr. CASTO. We would use D materials for the payment in kind.

Mr. THOMAS. What is that?

Mr. CASTO. We would use materials from the Defense Production Act inventory for the payment of the processing cost.

VALUE OF ALL STOCKPILES

Mr. THOMAS. What is the Defense Production Act stockpile worth?

Mr. CASTO. We have 113,430 tons of copper in the DPA inventory with an acquisition cost of $63,521,000.

Mr. THOMAS. As a matter of fact, you have three stockpiles, do you not?

Mr. CONNELL. Four, sir.

Mr. THOMAS. What is your fourth one?

Mr. CONNELL. CCC.

Mr. THOMAS. As of today what is the value of that stockpile?

Mr. CONNELL. $61,404,800 is the acquisition cost. The market value is $58,525,700.

Mr. THOMAS. What is the value of the CCC material that you will put in fresh during the fiscal year 1964?

Mr. CONNELL. We estimate in fiscal year 1964 about $100 million.

Mr. CASTO. Not in copper, no.

Mr. THOMAS. I have a figure of $2 billion when you put it all together. What is that figure? You set it out in here. All of the CCC materials?

Mr. CONNELL. All of the supplemental, sir?

Mr. THOMAS. That is right. What is your figure?

Mr. CONNELL. $1,229,593,100 is the acquisition cost of the supplemental. The market value was $1,105,986,600.

Mr. THOMAS. For the year 1964 what will be the acquisition cost of that new material that you acquire from CCC?

Mr. HARLAN. It is estimated at $85 million.

Mr. THOMAS. Is that all?

Mr. HARLAN. Yes.

Mr. THOMAS. That comes from surplus commodities?

Mr. HARLAN. Yes.

Mr. EVINS. When you speak of $8.7 billion does that include all four of the stockpiles?

Mr. CASTO. Yes, sir.

Mr. BOUTIN. One of those, however, is simply a transitional stockpile until it gets to the supplemental inventory.

Mr. CASTO. The CCC is an agricultural holding program only until it is incorporated into the supplemental stockpile.

Mr. EVINS. If you move it around enough, paying for the transportation with surplus commodities, you can reduce your stockpile if you keep it on the move.

INVENTORY MANAGEMENT

Mr. THOMAS. We will look at the inventory management and may I read two paragraphs on page 255? Put pages 251, 253, 255, and 256 in the record.

(The pages referred to follow:)

2. Inventory management

	Amount	Average employment		
		Department	Field	Total
1963	$12,402,000		205.8	205.8
Change	+9,782,000		+5.0	+5.0
1964	22,184,000		210.8	210.8

HIGHLIGHT

"Covers costs of maintaining materials in the national and supplemental stockpiles so that they will be available for immediate use in an emergency, including rotation, storage, special preservation, and disposal of materials no longer required for stockpile objectives.

"The acquisition cost of these inventories is as follows (in millions of dollars):

	1962 actual	1964 estimate
National stockpile	6,049.6	5,700.2
U.S. supplemental stockpile	1,141.1	1,427.6
Total national and supplemental	7,190.7	7,127.8"

(From the budget for 1964.)

Justification of the activity is presented under three subactivities summarized below:

Summary of performance cost

	1962	1963	1964
(a) Rotation of materials (gross)	$13,410,754		$7,096,000
(b) Storage of materials	11,741,045	$11,020,000	12,877,000
(c) Disposal of materials	687,498	1,382,000	2,211,000
Total cost or estimate	25,839,297	12,402,000	22,184,000

JUSTIFICATION

(a) *Rotation of materials*

"Perishable materials in the national stockpile are rotated when their usability becomes impaired for essential emergency requirements. Cordage fibers are the only materials to be rotated in 1964." (From the budget for 1964.)

Materials in the stockpile are rotated and replaced with fresh materials only when inventories do not exceed stockpile objectives. When inventories of perishable material exceed stockpile objectives, the materials are disposed of as authorized by the Office of Emergency Planning. In disposing of such materials, sales priority is given to the quantities of materials which have deteriorated to a point otherwise requiring rotation in order to maintain the quality of the stockpile inventory of these materials.

Rotation sales and costs are as follows (in thousands of dollars):

	1962 actual	1963 estimate	1964 estimate
Gross replacement costs of materials rotated	$13,411		$7,096
Rotation sales	10,355		5,693
Net cost to Government	3,056		1,403

Gross replacement costs include the cost of new materials, transportation, and handling.

Receipts from rotation sales are deposited in the Treasury pursuant to the Independent Offices Appropriation Acts for 1961 and subsequent years. Similar language is included for 1964. Since rotation receipts are not available, the appropriation request must cover gross replacement costs.

Research by GSA has indicated that the rotation cycle can be increased from 5 to 7 years for abaca and from 7 to 9 years for sisal with resultant savings in rotation costs. Accordingly, the 1964 estimate is based on the 7-year cycle for abaca and 9 years for sisal. No rotation is being undertaken in 1963 because funds were not appropriated for this purpose.

Rotation sales and costs for 1964 are as follows:

	Quantity (pounds)	Sales price		Replacement cost		Net cost	
		Per unit	Total (in thousands)	Per unit	Total (in thousands)	Per unit	Total (in thousands)
Cordage fibers:							
Abaca	19,772,000	$0.2385	$4,716	$0.2915	$5,764	0.0530	$1,048
Sisal	8,250,000	.1185	977	.1615	1,332	.0430	355
Total, 1964			5,693		7,096		1,403

(*b*) *Storage of materials*

"Strategic and critical materials were stored at 208 locations as of June 30, 1962, utilizing approximately 24 million square feet of closed storage; 66 million square feet of open storage; and 2 million barrels of tank storage. The number of storage locations was reduced to 173 as of August 1, 1962, due to the transfer of surplus cotton to the Department of Agriculture. Materials in the national and supplemental stockpile totaled approximately 40.7 million tons on June 30, 1962, and it is expected that approximately 3.5 million tons a year will be added to the supplemental stockpile in 1963 and 1964. Distribution of storage costs is as follows (in thousands of dollars):

	1962 actual	1963 estimate	1964 estimate
Recurring storage costs	10,031	9,582	9,806
Nonrecurring storage costs	1,673	1,098	2,000
Relocation transportation and handling	37	340	1,071
Total cost or estimate	11,741	11,020	12,877"

(From the budget for 1964.)

Workloads and unit costs for these operations are explained below.

(1) *Recurring storage costs.*—Covers costs of operating all GSA storage depots, including two military facilities being taken over by GSA in 1963 and one military facility planned to be taken over in 1964. Operating costs at GSA depots cover day-to-day maintenance, fire protection, security guarding, utilities, and supply management personnel. This item also includes reimbursement to DOD for storage at military facilities, and storage costs at industrial plant sites, commercial warehouses, and miscellaneous leased sites. Increase in 1964 over 1963 provides for storage of additional quantities of materials transferred to the supplemental stockpile from the CCC barter program, offset in part by decreases in storage costs as a result of disposals and relocation of materials to effect long-term savings.

(2) *Nonrecurring storage costs.*—Covers repair, alteration, and improvement of Government-owned storage facilities, including warehouses and tank farms; preparation of open area storage sites; repackaging of materials in long-term containers; protective coverings for ore piles; storage aids; handling equipment; reconditioning and preservation of containers; rehabilitation of sprinkler systems and other fire protection facilities. Funds available in 1963 are sufficient only for top priority projects, so the increase in 1964 provides for essential projects carried over from 1963.

(3) *Relocation transportation and handling.*—Covers costs of inland transportation and necessary handling involved in relocating materials in order to conform to Office of Emergency Planning storage criteria or to effect savings in long-term storage costs. Estimate for 1964 includes $115,000 for relocation and dispersal of miscellaneous materials to avoid excessive risks from attack damage, as directed by OEP. Also includes $956,000 for relocating materials which will avoid expenditure of more than this amount for repairs at one storage facility and also will result in future annual savings of $483,000 in recurring storage costs.

(c) *Disposal of Materials.*—Covers handling and transportation expenses incurred in connection with the disposal of materials no longer required for stockpile objectives.

[In thousands of dollars]

Total cost:	
1962 actual	688
1963 estimate	1,382
1964 estimate	2,211

"Disposals on a commitment basis from the national stockpile in 1962 totaled approximately $47.7 million for about 150,000 short tons of materials, including rubber, coconut oil, magnesium scrap, quinine, palm oil, and silk waste.

"As of June 30, 1962, a total of over 700,000 short tons of excess materials in the national stockpile was available for disposal under approved disposal plans. The estimates for transportation and handling expenses incurred in effecting disposals are based upon projected disposals of $113 million in 1963 and $138 million in 1964. They do not, of necessity, take into consideration changes in stockpile policy which may result from studies currently being made by the executive branch and the Congress." (From the budget for 1964.)

The chart on opposite page shows comparative disposal figures for 1959 through 1964 on a sales-commitment basis, showing acquisition cost and sales value.

This subactivity covers the Government's expenses for handling materials planned for disposal. Transportation costs also are included for estimated disposal sales of rubber and cordage fibers. Prices received by the Government include such transportation for these materials, but by statute all receipts from sales of national stockpile materials are covered into the Treasury as miscellaneous receipts. The appropriation request, accordingly, must provide for all expenses involved in disposal sales.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $1,272,800 for 212 permanent positions, an increase of 4 over 1963. Provides for supervision and operation of warehouses and storage facilities.

	1962	1963	1964
Total permanent positions (all field)	203.0	208.0	212.0
Average employment, permanent positions	191.6	205.0	210.0
Average employment, temporary positions	16.3	.8	.8
Total average employment	207.9	205.8	210.8

Other objects: $20,911,200 provides:

(1) $94,800 personnel benefits, including $77,500 retirement contributions, $11,300 health benefits, $2,000 group insurance, and $4,000 FICA.

(2) $2,961,500 transportation of things, including $560,500 under the rotation program and $1,600,000 under the disposal program; balance of $801,000 to conform materials pattern to civil defense storage criteria as well as to effect savings in long-term storage costs.

(3) $11,287,100 contractual services, including $2,957,000 for services of other Government agencies, and $8,330,100 for storage, handling, space preparation, etc., at GSA and commercial locations.

(4) $6,526,400 supplies and materials, including $6,451,400 under rotation program, and $50,000 for operating supplies under storage program for such items as containers, pallets, dunnage, etc.; and $25,000 operating equipment.

The remainder of $41,400 includes:

(5) $6,000 for 222 days' travel by regional depot supervisory personnel at $27 per day; and $12,000 motor pool services.

(6) $20,000 communications; $2,000 rents and utilities; and $1,400 printing.

Mr. THOMAS. Let me read a paragraph from page 255:

Relocation transportation and handling: Covers costs of inland transportation and necessary handling involved in relocating materials in order to conform to Office of Emergency Planning storage criteria or to effect savings in long-term storage costs. Estimate for 1964 includes $115,000 for relocation and dispersal

of miscellaneous materials to avoid excessive risks from attack damage, as directed by OEP. Also includes $956,000 for relocating materials which will avoid expenditure of more than this amount for repairs at one storage facility and also will result in future annual savings of $483,000 in recurring storage costs.

NUMBER OF STORAGE LOCATIONS

How many locations are you using for your storage and how are they generally located?

Mr. CONNELL. We have 170 locations.

BASIS FOR MOVING STOCKPILE MATERIALS

Mr. THOMAS. Why move this material around when you once get it in the warehouse or storage location?

Mr. HARLAN. We have two basic reasons for moving the materials, Mr. Chairman. One of them is to improve the strategic location of certain of our materials.

Mr. THOMAS. What is your yardstick—who is here from OEP?

Mr. CONNELL. Mr. Lawrence and Mr. Durkin, sir.

Mr. THOMAS. Heretofore you have been wanting to store all these materials close to the consuming area. We have pointed out to you time and time again that when you go in one of these big industrial areas and that city is blown up, your stockpile is blown up with it.

Have you changed your policy now and dispersed any of it, getting it out of the heavy consuming areas?

Mr. LAWRENCE. Not particularly, sir. In certain areas, certain storage sites where we have determined the potential loss is greater, we have attempted to move certain commodities out.

Mr. THOMAS. Who does that guessing for you? How do you determine it? You are guessing like everybody else, are you not? You cannot come up with an infallible yardstick, can you?

Mr. LAWRENCE. We use a system of damage analysis which is based on the best intelligence we can get from the Department of Defense, sir.

Mr. THOMAS. Then it is a question of judgment based on that.

Mr. LAWRENCE. Yes, sir.

PROCEDURE FOR DISPOSAL OF MATERIALS

Mr. THOMAS. This is worthy of repetition. [Reading:]

Disposals on a commitment basis from the national stockpile in 1962 totaled approximately $47.7 million for about 150,000 short tons of materials, including rubber, coconut oil, magnesium scrap, quinine, palm oil, and silk waste.

Just what is the law now on disposition of materials in the national stockpile?

Mr. CONNELL. Disposing of materials in the national stockpile?

We must go to Congress—we develop a disposal plan from a directive of OEP. We have concurrence of other agencies. We go to the Congress and testify as to the materials we want to dispose of.

Mr. THOMAS. Under the law you can't dispose of anything in the national stockpile without an act of Congress dealing with the specific item; is that correct?

Mr. CONNELL. If it is obsolete, sir, we do not.

Mr. THOMAS. With the minor exception, and that is rotation. You mean you are disposing of it because it is deteriorated or overage and you have to replace it; is that right?

DISPOSAL PLANS

Mr. CONNELL. Yes, sir.

Mr. THOMAS. You sold $47.7 million worth in 1962. Why don't you sell more?

You state two or three times in your justification, and it is not necessary for me to read your exact language, that it depends upon the market, our oversea allies and other things, but it all ends up you still don't sell any appreciable amount. You sold less than $50 million worth last year in 1962.

Mr. OSTERTAG. What have you done to gain the approval of Congress for disposal of these materials?

Mr. CONNELL. We have several disposal plans before the Congress right now.

Mr. OSTERTAG. What are you pressing for?

Mr. CONNELL. Cadmium is one.

Mr. HARLAN. We had 14 approved by the Congress last year.

Mr. THOMAS. What were they besides rubber?

Mr. HARLAN. There were vegetable tannins, miscellaneous cobalt and copper items. It included some fibers. Also molybdenum.

Mr. THOMAS. Why don't you get into some of the big items, won't the market stand it?

Mr. HARLAN. We believe now, Mr. Chairman, that by doing some long-range planning for disposals—not just packaged jobs—that we can come up with a plan which everybody will be able to approve and live with which will enable us to move some quantities.

Mr. THOMAS. Are we correct in our understanding that Canada has just about disposed of its stockpiled critical materials?

Mr. HARLAN. That is correct.

Mr. THOMAS. Is our understanding correct that England has disposed of all of her materials about a year or a year and a half ago?

Mr. CONNELL. Yes, sir.

Mr. THOMAS. Why can't we get rid of some of these surplus items?

Mr. CONNELL. In the Executive Stockpile Committee, the OEP, being the Chairman of that Committee—the report was approved by the President. We recommended to that Committee long range plans, legislation, and it is at the point now where they are looking into that recommendation.

Mr. THOMAS. We have been looking for 5 years. We have been straining our eyes for the past 5 years looking and looking and looking, and nothing and nothing and nothing is done. What is the reason?

AUTHORITY FOR DISPOSAL

Mr. HARLAN. We are trying to get some new legislation which will untie our hands so we can start to move on this material.

Mr. THOMAS. How much involved is the State Department in this disposal plan?

Mr. HARLAN. They have to approve disposals.

Mr. THOMAS. Why?

Mr. BOUTIN. There is a change there, Mr. Chairman. There has been a revision of DMOV–7 which is a disposal regulation whereby now the State Department, Interior Department, Commerce Department, which are the three most directly concerned with the exception of OEP and GSA, where these departments no longer have a veto on disposal. We coordinate with them. They can raise an objection but the umpire now is OEP speaking for the President. They can't simply say, "Well, we veto it" and that is it, the plan is dead. That no longer is in existence.

Mr. THOMAS. May I read this paragraph on page 255, gentlemen. It is worth keeping in mind.

As of June 30, 1962, a total of over 700,000 short tons of excess materials in the national stockpile was available for disposal under approved disposal plans.

Was it disposed of?

Mr. OSTERTAG. That means you already had authority?

Mr. THOMAS. Was it disposed of?

Mr. CONNELL. No, sir.

Mr. THOMAS. (Continuing reading):

The estimates for transportation and handling expenses incurred in effecting disposals are based upon projected disposals of $113 million in 1963 and $138 million in 1964. They do not, of necessity, take into consideration changes in stockpile policy which may result from studies currently being made by the executive branch and the Congress.

Who in the Congress?

Mr. BOUTIN. The Symington committee, Mr. Chairman.

Mr. THOMAS. Have they brought out anything this committee hasn't brought out time and time again for 5 or 6 long years?

Mr. BOUTIN. No, the evidence that has been brought out there is almost exactly what has been brought out before this committee.

ADDITIONAL DISPOSAL AUTHORITY

However, we now have a firm directive from the President indicating that he favors legislation that will enable the disposal of the materials that are in excess of our needs without seriously disrupting the market. Senator Symington's committee is working on legislation with OEP, GSA and others, which I hope will be introduced shortly.

Mr. OSTERTAG. This reference to the statement just read by the chairman which among other things says, "under approved disposal plans," does that mean you merely have plans but not the authority?

Mr. BOUTIN. This means we have the internal plans within the executive branch and these are either pending before Congress or are ready for submission to Congress.

Mr. OSTERTAG. That is what I am trying to get at. When you say "approved disposal plans" you mean plans for which you need authority to execute.

Mr. BOUTIN. Some of them, in fact, may already be approved.

Mr. CONNELL. Yes, sir.

Mr. OSTERTAG. But nothing has happened as a result of it.

Mr. BOUTIN. Yes, there has. If you will look at the chart on page 254 you will note the increase in disposal forecasts from all stockpiles for $69 million in 1961, $87.5 million in 1962. A total of $140 million is forecasted for this year and $158.6 million for fiscal year 1964, not

taking into consideration the additional authority that we hope will come from Congress.

Mr. OSTERTAG. In connection with the point the chairman has been making, it is not quite clear to me as to your plans. Is it to broaden or liberalize the authority so that you will not be required to go directly to the Congress in each instance in order to dispose of certain strategic materials? You have a number of cases pending for specific authority to dispose of materials now, do you not?

Mr. CONNELL. Yes, sir.

Mr. BOUTIN. Yes, we do.

Mr. OSTERTAG. Cadmium is one, is it not?

Mr. CONNELL. Yes, sir.

Mr. OSTERTAG. You will remember Mr. Administrator, that you and I discussed this matter some time ago.

Mr. BOUTIN. That is correct.

INDUSTRY NEED FOR MATERIALS

Mr. OSTERTAG. Here is a case as I see it where industry is desperate for this material and it is affecting the economy in many places. I know of one or two plants that will be forced to reduce their working operations and place people in an unemployed status just because of their inability to obtain a sufficient supply of this material.

Mr. BOUTIN. Another good example recently was because of the shipping strike, two plants that I know of in Rhode Island, and there were others elsewhere, were going to have to close down because they couldn't get crude rubber and we have rubber running out of our ears. We were able to get a directive, working with OEP so that we are able to use the next month's sales or sales from within the next 12 months and keep them going. But there is very little flexibility as it stands right now. This 6 months waiting period, for instance. By the time 6 months is over the emergency is over.

STATUS OF LEGISLATION

Mr. OSTERTAG. What can be done to expedite this important matter?

Mr. BOUTIN. I am hoping that legislation is going to be presented very shortly. Bill, how far along is the legislation?

Mr. LAWRENCE. I think work on it is virtually finished, so it is about ready.

Mr. BOUTIN. One of the big things too, is the commingling of these inventories which would save an awful lot of money and bookkeeping. Now you have to keep everything separate within these four inventories and it just doesn't make very much sense, that we can see. Either we need it or we don't need it.

Mr. THOMAS. Let's look at 256, gentlemen. Here are your other objects on inventory management. This is already in the record. We have an increase of about five jobs. We have an item for transportation of things under the rotation program; shipments from one point to another. Most of these items are stored outdoors. They are big, heavy items. You have copper, aluminum, cobalt, and magnesium.

National Industrial Equipment Reserve

Look at your industrial reserves. Put pages 258, 259, and 260 in the record.

(The pages referred to follow:)

3. National industrial equipment reserve

	Amount	Average employment		
		Department	Field	Total
1963	$1,621,000		158.4	158.4
Change	−100,000		−7.4	−7.4
1964	1,521,000		151.0	151.0

HIGHLIGHT

"The reserve of Government-owned machine tools and other industrial manufacturing equipment authorized by the National Industrial Reserve Act of 1948, consists entirely of items selected by the Secretary of Defense from lists of such property declared excess to the needs of the three military departments and other executive agencies.

"Items in the national industrial equipment reserve are intended primarily for expansion in an emergency of defense-supporting industries such as manufacturers of ball bearings, gears, tools and dies, and machine tools. Each of the military departments also maintains a reserve of production equipment for current and mobilization requirements of direct military contractors and producers specifically designated as mobilization suppliers.

"In accordance with Department of Defense estimates for total selections for the national industrial equipment reserve from excess declarations of production equipment, budget estimates are based on selection rates of 1,000 items in 1963 and 800 items in 1964.

"During 1961 and 1962 the Department of Defense authorized and General Services Administration entered into 12 and 38 loan agreements, respectively, with vocational schools for equipment in the national industrial equipment reserve where such loans are in the interest of national defense." (From the budget for 1964.)

Comparative costs are as follows:

Transportation, processing, and storage:

1962	$1,821,023
1963	1,621,000
1964	1,521,000

JUSTIFICATION

Transportation, processing, and storage: Covers nonrecurring costs of loading, transportation, handling, processing, and testing of tools for long-term storage, and recurring storage costs.

More detailed identification of cost categories follows:

(1) Transportation costs cover transportation of equipment from locations at time of selection to NIER processing and storage centers.

(2) Loading costs include skidding and loading on common carriers of equipment at plants or depots where located at time of selection.

(3) Material handling includes handling of new selections, handling of leased items in and out, handling of equipment within facilities, transfers, and disposals.

(4) Processing includes analytical testing of operating condition of equipment and preparation for long-term storage.

(5) Machinery upkeep includes operation of dehumidification systems, periodic equipment inspection and reprocessing of equipment to extent necessary.

(6) Building maintenance includes maintenance and upkeep of storage facilities.

Analysis of inventory changes and workload costs for 1962–64 are shown on the following page.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $916,500 for 152 positions, a decrease of 8 positions from 1963. Covers personnel at preservation depots engaged in the care and preservation of industrial equipment scheduled for entry into the national reserve.

	1962	1963	1964
Total positions (all in field)	113.0	160.0	152
Average employment	106.6	158.4	151

Other objects: $604,500 provides:

(1) $69,500 personnel benefits, including $60,200 retirement contributions, $6,300 health benefits, $1,000 group insurance, and $2,000 FICA.

(2) $100,000 for movement of equipment selections from contractors' plants to GSA facilities, as well as between NIER depots.

(3) $262,000 principally for services performed by other Government agencies and other contractual services.

The remainder of $173,000, or 11.4 percent of total estimate, provides:

(4) $3,000 for 111 days travel at $27 per day by regional depot supervisory personnel and $13,000 motor pool services.

(5) $62,000 for utilities and rental of equipment and facilities; $5,400 communications; $300 printing.

(6) $81,800 for supplies for program operations.

(7) $7,500 for purchase of specialized processing and testing equipment.

National industrial equipment reserve—Performance and comparative costs, 1962–64

	1962 actual			1963 program			1964 estimate		
	Number of units	Unit cost	Total cost	Number of units	Unit cost	Total cost	Number of units	Unit cost	Total cost
Transportation, processing, and storage:									
(1) Transportation			$119,826			$125,000			$100,000
Tons	5,780	$20.73		5,000	$25.00		4,000	$25.00	
Items	1,548			1,000			800		
(2) Loading costs			144,390			120,000			100,000
Tons	3,470	41.61		3,000	40.00		2,500	40.00	
Items	925			600			500		
(3) Material handling			284,757			253,000			224,000
(a) Receiving and shipping:									
Tons	10,418	13.30		10,000	13.80		7,750	14.00	
Items	3,061			2,300			1,550		
(b) Intradepot movements:									
Tons	63,546	2.30		50,000	2.30		50,000	2.31	
Items	15,629			10,000			10,000		
(4) Processing and testing			906,852			760,000			720,000
Tons	9,776	92.76		8,000	95.00		7,500	96.00	
Items	1,906			1,600			1,500		
(5) Machinery upkeep			100,056			100,000			107,000
Tons	42,599	2.35		43,160	2.32		43,285	2.47	
Items	8,312			8,179			8,054		
(6) Buildings maintenance			265,142			263,000			270,000
Square feet	1,303,280	0.20		1,323,280	0.20		1,323,280	0.20	
Total cost or estimate			1,821,023			1,621,000			1,521,000

NATURE OF NATIONAL INDUSTRIAL EQUIPMENT RESERVE

Mr. THOMAS. You are acting as an agent for the Department of Defense here, are you not?

Mr. BOUTIN. Yes.

Mr. THOMAS. What is the acquisition cost of that stockpile?

Mr. BOUTIN. $92,162,505.

Mr. THOMAS. How many different pieces of equipment are there and where are they located?

Mr. BOUTIN. 9,329 tools, in several locations.

Mr. CONNELL. Burlington, N.J.; Dixon, Ill.; and Marietta, Ga.

Mr. THOMAS. You have three big locations?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. How many pieces of equipment, 9,300?

Mr. BOUTIN. 9,329 was the total inventory, sir. We have added a net of 160 since June 30——

Mr. THOMAS. The reserve of Government-owned machine tools and other Government equipment authorized by the National Industrial Reserve Act of 1948 consists entirely of items selected by the Secretary of Defense. You folks are just custodians?

Mr. CONNELL. Yes, sir.

Mr. THOMAS. In accordance with the Department of Defense estimates the total selection of national industrial reserve from excess declarations, budget estimates are based on selection rates of 1,000 items in 1963 and 800 items in 1964? You only have 1,000 items now and you are going to add 864?

Mr. CONNELL. No, we have over 9,000, sir.

Mr. HARLAN. That is right.

Mr. THOMAS. How many of those do you take in and out? How many times a year do you have to move these items? Do you have any information on that?

Mr. HARLAN. Yes, sir. We estimate we are going to ship out 750.

Mr. THOMAS. Every time you put one in and every time you take it out you have a tremendous expense. Does the Department of Defense pay the transportation costs to your warehouse?

Mr. HARLAN. No.

Mr. THOMAS. You pay it all in here?

Mr. HARLAN. This budget covers it. Four hundred of those 750 tools are going out to the school programs.

Mr. THOMAS. I was just going to read that.

In 1961 and 1962 the Department of Defense authorized General Services to enter into 12 and 38 loan agreements, respectively, with vocational schools for equipment in the national industrial equipment reserve where such loans are in the interest of national defense.

It is not a gift, it is a loan?

Mr. HARLAN. That is correct.

Mr. OSTERTAG. You loan the tools?

Mr. CONNELL. Yes, sir.

Mr. BOUTIN. They have to maintain them and we run periodic inspections on them every 6 months.

Mr. THOMAS. Transportation, processing and storage, $1,821,000 for 1962, $1,621,000 for 1963, and $1,521,000 for 1964. It goes down a little bit.

How many employees do you have listed here? Do you do any maintenance on these properties? Heretofore you have testified that you oil it and spray it.

Mr. HARLAN. Yes, sir.

Mr. BOUTIN. Actually, when it comee in to us we go over the piece of equipment completely and bring it right up to top operating efficiency and then put it into storage and then it periodically is gone over to make sure it is kept in that condition.

Mr. HARLAN. It is carefully gone over. Tolerances are measured and everything.

STORAGE AND MAINTENANCE OF EQUIPMENT

Mr. THOMAS. What is the storage place in Illinois?

Mr. CONNELL. Dixon, Ill.

Mr. THOMAS. Where are the other ones?

Mr. CONNELL. Burlington, N.J., and Marietta, Ga.

Mr. THOMAS. That is Government storage?

Mr. CONNELL. They are all in Government storage; yes, sir.

Mr. THOMAS. Did you spend some money on that building in Illinois 2 years ago?

Mr. HARLAN. Yes.

Mr. EVINS. It looks like the Department of Defense which has so many competent servicemen, that they could maintain this machinery and equipment. They know best how to operate it and where they want to use it. Why do they turn it over to you to get extra personnel to maintain their equipment for them?

Mr. HARLAN. The National Industrial Equipment Reserve Act provides we will take care of the reserve. It is a reserve to handle the requirements for tools for defense supporting industries in the event of an emergency.

Mr. BOUTIN. I would also like to point out, Mr. Congressman, that under this program we had a contractor doing this work for us at Marietta. Last July 1 we did not renew the contract and went force account and are saving between $60,000 and $65,000 a year.

Mr. EVINS. They are doing it under force account and maintaining the machinery because the law requires them to.

Mr. THOMAS. Very well, go ahead.

Mr. OSTERTAG. It is not clear to me as to this industrial equipment reserve. These are tools and equipment stored as a result of the buildup during the wartime period?

Mr. BOUTIN. These are tools that are in standby in case of a national emergency. In case of a national emergency they could be moved into necessary plants almost overnight for production to meet the emergency.

Mr. OSTERTAG. Doesn't it constitute tools and equipment that had been formerly used, or is it something new?

Mr. BOUTIN. These are all used pieces of equipment and these new items Mr. Harlan testified to are largely from defense plants that are being closed out, turned over to us for disposal and certain tools are selected.

Mr. OSTERTAG. That is what I had in mind.

Now, isn't there a considerable degree of obsolescence or no value in connection with much of the stockpile?

Mr. BOUTIN. No; they are very carefully selected by the Department of Defense so that they are tools that would have an immediate use in the event of an emergency.

Mr. HARLAN. They are all general purpose tools. They don't change very much.

Mr. OSTERTAG. They are not exactly tools that would be used with regard to production of weapons, for example, that have long since gone out of existence.

Mr. BOUTIN. General purpose tools.

OPERATING EXPENSES

Mr. THOMAS. Let us take a look at the operating expenses here. Put pages 263 and 264 in the record.

4. Operating expenses

	Amount	Average employment		
		Department	Field	Total
1963	$3,077,000	102.0	110.5	212.5
Change	+113,000	−1.5	−2.0	−3.5
1964	3,190,000	100.5	108.5	209.0

HIGHLIGHT

"Covers all expenses at the central and regional office levels for administering programs financed under this appropriation head including the Defense Materials Service and the integrated staff offices of General Services Administration. The change in total workload in 1964 from 1963 will be limited, with staffing and related expenses holding at minimum requirements." (From the budget for 1964.)

Costs of this activity are reflected in three areas summarized below and discussed in further detail hereinafter.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
(a) Service direction	$345,385	29.5	$438,800	33.8	$460,000	34.0
(b) Program	1,532,883	173.4	1,704,200	178.7	1,770,000	175.0
(c) Administrative operations	929,300	(1)	934,000	(1)	960,000	(1)
Total operating expenses	2,807,568	202.9	3,077,000	212.5	3,190,000	209.0

[1] Employment for administrative operations is shown under the AO fund.

JUSTIFICATION

(a) *Service direction.*—General direction over all programs assigned to the Defense Materials Service is provided by the Commissioner and his immediate staff, including the office of the Deputy Commissioner. Supervision is provided in Botson, New York, Washington, D.C., Atlanta, Chicago, and Dallas by DMS regional directors responsible for carrying out program operations in these areas of major stockpile activities.

The employment requested represents the staff required to provide adequate direction, planning, control, and management of DMS programs.

EXPLANATION OF DISTRIBUTION BY OBJECTS (SERVICE DIRECTION)

Personnel compensation and staffing: $393,100 for 34 positions distributed as follows:

	1962	1963	1964
Central office	19.0	21.0	21.0
Regional offices	14.0	13.0	13.0
Total positions	33.0	34.0	34.0
Average employment	29.5	33.8	34.0

Other objects: $66,900 provides—

(1) $29,500 personnel benefits, including $25,600 retirement contributions, $2,000 health benefits, and $1,900 group insurance.

(2) $7,000 postage fees for all DMS activities. The remainder of $30,400, or 6.6 percent of total estimate, includes:

(3) $10,000 travel based on 370 days at $27; and $700 motor pool services;

(4) $400 transportation; $6,500 communications; $2,100 printing;

(5) $2,400 supplies; $5,800 other services; $2,500 equipment.

(*b*) *Program.*—Covers all other personnel and related expenses of DMS at the Central and Regional Office levels for programs financed under "Strategic and critical materials." Provides overall project administration and materials management including acquisition, ungrading, qualitative maintenance, storage, inspection, rotation, and disposal of strategic and critical materials; and management of the national industrial equipment reserve.

Staff requirements and other expenses are as follows:

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
(1) Office of Materials Management	$993,131	112.6	$1,093,400	115.7	$1,126,200	111.5
(2) Office of Storage Management	539,752	60.8	610,800	63.0	643,800	63.5
Total cost or estimate	1,532,883	173.4	1,704,200	178.7	1,770,000	175.0

Mr. THOMAS. This shows the top management people. You have an employment of 209 next year against 212 this year. [Reading:]

Service direction: General direction over all programs assigned to the Defense Materials Service is provided by the Commissioner and his immediate staff, including the office of the Deputy Commissioner. Supervision is provided in Boston, New York, Washington, D.C., Atlanta, Chicago, and Dallas by DMS regional directors responsible for carrying out program operations in these areas of major stockpile activities.

In service direction you have 21 people in the central office and 13 in the regional offices for a total of 34.

Where are the green sheets? You have one GS–18, one GS–17, and four GS–16s. In your Other Objects at page 268 you show $282,900 of which $111,500 is personnel benefits including $96,400 retirement contributions, $15,100 health benefits, and $4,600 group insurance. You have $72,000 for travel based on 2,666 days travel at an average of $27 per day and $17,300 for motor pool services.

I do not know why you are going to do so much printing and binding here.

SUMMARY OF OTHER OBJECTS OF EXPENSE FOR STRATEGIC MATERIALS

Your summary data gives a little detail on your "Other objects" but it is quite meager. Put that page 271 in the record.

(The page follows:)

SUMMARY STATEMENT ON "OTHER OBJECTS" FOR 1964

Of the $28,145,000 obligation program for 1964, $4,069,500 is for personnel compensation. The remainder of $24,075,500 is for other objects as follows:

12 Personnel benefits, $305,300: Includes contributions to retirement fund, $259,700; health benefits, $30,100; group insurance, $9,500 and employer's FICA, $6,000.

21 Travel and transportation of persons, $134,000: Travel rates vary among the several activities due to nature of duties, differences in modes of travel, duration of trip, etc. Amount includes $91,000 for 3,370 days regular travel at average of $27 per day; and $43,000 for motor pool services.

22 Transportation of things, $3,545,900: For transportation of new and upgraded materials delivered to stockpile; relocation of materials from temporary or indefinite to more permanent storage facilities; sales under approved disposal plans; and movement of NIER items.

23 Rent, communications, and utilities, $131,400: $64,000 for fixed charges of supplementary space required by warehousing, inspection, and industrial equipment activities; and $67,400 for telephone, teletype service, postage meter rentals, etc.

24 Printing and reproduction, $20,000: $4,200 for special procurement and stock level forms; $3,100 for manuals, regulations, etc.; $5,100 for bulk printing and bills of lading, classification guides, shipping and receiving manuals, and instructions pertaining to inventory management activities; $3,100 for various special reports required by program officials and other interested agencies; $2,100 for reproduction of forms and reports; and $2,400 for miscellaneous printing and reproduction.

25 Other services, $8,545,600: $7,000 for tests and analyses performed by facilities other than GSA; $4,000 for repairs to office machines and equipment; and $11,000 for miscellaneous services including health room services and security investigations. Remainder is for commercial warehousing and handling contracts, expenses connected with rotation and disposal sales, upgrading program, and miscellaneous accessorial costs.

25 Payment to administrative operations fund, $960,000: For administrative operations necessary to support this program.

25 Services of other agencies, $3,093,000: Largely for reimbursement to DOD for custody of materials and equipment at military depots.

26 Supplies and materials, $7,297,400: Includes $6,451,400 under rotation program, $700,000 under acquisition program, $50,000 under inventory management, $81,800 under NIER program, and $14,200 for office supplies.

31 Equipment, $42,900: Primarily for handling, testing, and processing equipment under the inventory management and industrial equipment activities.

Mr. THOMAS. Thank you, gentlemen.

Salaries and Expenses, Office of the Administrator

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	1,033	1,163	1,239
	Positions other than permanent	7	1	
	Other personnel compensation	1		10
	Total personnel compensation	1,042	1,164	1,249
12	Personnel benefits	76	85	91
21	Travel and transportation of persons	32	50	50
	Payment to interagency motor pools	6	6	6
22	Transportation of things	4	2	2
23	Rent, communications, and utilities	30	31	32
24	Printing and reproduction	38	33	33
25	Other services	14	14	14
26	Supplies and materials	12	13	14
31	Equipment	14	10	9
	Total obligations	1,267	1,408	1,500

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	139	140	145
Full-time equivalent of other positions	2		
Average number of of all employees	122	134	138
Number of employees at end of year	131	140	145
Average GS grade	9.1	8.9	8.9
Average GS salary	$8,247	$8,605	$8,589

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Executive direction	620	641	660
2. Legislative and information services	180	225	242
3. Business services	457	551	598
Total program costs, funded [1]	1,257	1,417	1,500
Change in selected resources [2]	10	−9	
Total obligations	1,267	1,408	1,500
Financing:			
Advances and reimbursements from other accounts (−)	−13		
Unobligated balance lapsing	18		
New obligational authority	1,272	1,408	1,500
New obligational authority:			
Appropriation	290	1,350	1,500
Transferred (5 U.S.C. 630d) from—			
"Operating expenses, Public Buildings Service"	218		
"Repair and improvement of public buildings"	143		
"Operating expenses, Federal Supply Service"	85		
"Expenses, supply distribution"	417		
"Operating expenses, National Archives and Records Service"	32		
"Operating expenses, Transportation and Public Utilities Service"	13		
"Strategic and critical materials"	23		
"Sites and expenses, public buildings projects"	51		
Appropriation (adjusted)	1,272	1,350	1,500
Proposed supplemental due to pay increases		58	

[1] Includes capital outlay as follows: 1962, $7,000; 1963, $17,000; 1964, $9,000. Excludes $7,000 prior-year adjustment.

[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $2,000 (1962, adjustment −$1,000); 1962, $11,000; 1963, $2,000; 1964, $2,000.

Mr. THOMAS. Let us take up "Salaries and expenses," Office of the Administrator.

This area of the budget covers programs which are not delegated to any of the six services.

Put page 272 in the record and this table on 273 and 274, and the table here on 274 really breaks it down.

(The page referred to follows:)

FUNCTIONAL STATEMENT FOR GENERAL ITEMS

This area of the budget covers programs which are not delegated to any of the six services of the agency since they are agencywide, of special nature, or consist of unified services to all GSA operations and other agencies and commissions.

Included are items covering (1) The Administrator and his top assistants, financed by the appropriation "Salaries and expenses, Office of Administrator": (2) pensions, office staff and facilities for former Presidents financed by "Allowances and Office Facilities for Former Presidents"; (3) refund and rebate payments due World War II contractors financed by "Refunds under Renegotiation Act"; (4) the integrated staff organization which provides all customary financial, administrative, legal, and other staff services for all programs of GSA, financed by deposits or reimbursements from the benefiting appropriations and funds to the "Administrative Operations Fund"; (5) the unified automatic data processing (ADP) service which provides optimum automation to program paperwork, also financed through the "Administrative Operations Fund" by reimbursements from appropriations for programs serviced; (6) the liquidation of certain assets of the Reconstruction Finance Corporation and the Smaller War Plants Corporation financed by proceeds from such liquidation; and (7) operation of printing and duplicating plants financed by reimbursements to the "Working Capital Fund."

General items—Summary of new obligational authority and average employment

	New obligational authority		Average employment					
			Total		Central office		Field	
	1963	1964	1963	1964	1963	1964	1963	1964
A. NEW OBLIGATIONAL AUTHORIZATION AND RELATED EMPLOYMENT								
Salaries and expenses, Office of Administrator	$1,408,000	$1,500,000	133.9	138.0	52.6	53.0	81.3	85.0
Allowances and office facilities for former Presidents	320,000	300,000	-------	-------	-------	-------	-------	-------
Administrative operating fund (customary staff services subject to limitation)	(12,111,300)	(13,965,000)	1,405.9	1,567.2	492.7	532.7	913.2	1,034.5
1. Finance and administration	10,964,300	12,605,000	1,295.6	1,438.7	420.5	451.8	875.1	986.9
(a) Financial management	6,234,000	7,109,000	769.5	858.0	195.4	211.7	574.1	646.3
(b) Management services	2,455,000	2,857,000	284.5	309.0	146.5	153.3	138.0	155.7
(c) Manpower resources	1,804,300	2,133,000	203.0	232.5	60.7	68.7	142.3	163.8
(d) Staff direction	471,000	506,000	38.6	39.2	17.9	18.1	20.7	21.1
2. Legal services	1,147,000	1,360,000	110.3	128.5	72.2	80.9	38.1	47.6
Total NOA, subtotal employment	1,728,000	1,800,000	1,539.8	1,705.2	545.3	585.7	994.5	1,119.5
B. OTHER EMPLOYMENT								
Administrative operating fund (customary staff services not subject to limitation)	(2,733,000)	(2,726,000)	323.6	312.8	100.9	97.5	222.7	215.3
1. Finance and administration	2,480,200	2,446,000	299.4	286.3	85.0	80.9	214.4	205.4
(a) Financial management	1,902,000	1,882,000	234.5	227.0	59.6	56.3	174.9	170.7
(b) Management services	286,300	279,000	32.5	29.0	15.5	15.2	17.0	13.8
(c) Manpower resources	262,300	261,000	30.0	28.5	8.8	8.5	21.2	20.0
(d) Staff direction	29,600	24,000	2.4	1.8	1.1	0.9	1.3	0.9
2. Legal services	252,800	280,000	24.2	26.5	15.9	16.6	8.3	9.9
Administrative operating fund (ADP services not subject to limitation):								
1. Finance and administration:								
(b) Management services	(5,841,700)	(6,591,000)	468.0	512.0	73.0	78.0	395.0	434.0
Working capital fund	-------	-------	283.5	329.0	20.2	23.0	263.3	306.0
Other employment, subtotal	-------	-------	1,075.1	1,153.8	194.1	198.5	881.0	955.3
Total employment	-------	-------	2,614.9	2,859.0	739.4	784.2	1,875.5	2,074.8

Summary reconciliation of 1964 estimate to amounts for 1963

1963 appropriation in annual act	$1,350,000
Proposed supplemental appropriation for Pay Act increases	58,000
Total for 1963	1,408,000
Increases in 1964:	
Pay Act increases:	
Executive direction	18,900
Legislative information	9,200
Business services	13,900
Subtotal	42,000
Additional assistance to business concerns and the public interested in Government procurement and disposal	50,000
1964 estimate	1,500,000

Analysis by activities

Activities	1963 estimate	Increases	1964 estimate
1. Executive direction	$641,300	$18,900	$660,200
2. Legislative and information services	224,000	18,200	242,200
3. Business services	542,700	54,900	597,600
Total	1,408,000	92,000	1,500,000

Mr. THOMAS. He had last year $1,350,000 and he wants to increase it a little next year to $1,500,000.

The estimate for fiscal year 1964 includes $100,000 for increased pay. That is about all your increase, isn't it?

Mr. BOUTIN. Yes, sir.

Mr. THOMAS. You feel the Administrator is entitled to tools to work with.

The green sheet at page 278 shows 1 representative in each of your 10 regions.

Mr. BOUTIN. In each one, plus a secretary.

EXECUTIVE DIRECTION

Mr. THOMAS. Put page 276 in the record.

(The page follows:)

1. Executive direction

	Amount	Average employment		
		Department	Field	Total
1963	$641,300	29.4	21.3	50.7
Change	+18,900	−.4	−.3	−.7
1964	660,200	29.0	21.0	50.0

HIGHLIGHT

Policy direction and coordination of all programs of the Administration are provided by the Administrator and Deputy Administrator aided by a small central office staff, and by a regional administrator in each of the 10 regional offices. A Board of Contract Appeals performs specialized review of appeals from decisions of contracting officers.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Distribution by subactivity:						
(a) Immediate Office of Administrator	$158,164	14.0	$167,900	15.5	$171,900	15.2
(b) Board of Contract Appeals	139,767	11.7	145,600	11.9	153,400	11.8
Subtotal	297,931	25.7	313,500	27.4	325,300	27.0
(c) Field supervision [1]	322,734	23.5	327,800	23.3	334,900	23.0
Total cost or estimate	620,665	49.2	641,300	50.7	660,200	50.0
Distribution by location:						
Departmental	326,478	27.3	339,500	29.4	352,700	29.0
Regional	294,187	21.9	301,800	21.3	307,500	21.0

[1] Component with regional counterpart.

JUSTIFICATION

The staff in the immediate Office assists the Administrator with particular emphasis on (1) coordination of all major GSA programs and (2) performance of top policy assignments.

The Board of Contract Appeals acts as the representative of the Administrator in hearing, considering, and determining actions of GSA regarding appeals from decisions by contracting officers or other officials of GSA on disputed questions involving the award and administration of contracts.

The field supervision staff provides direction and coordination of field activities, decentralized contact with the public and other Government agencies, and evaluation of the effectiveness of GSA operations at this level. The functions are performed by a regional coordinator in the central office, and by the regional administrators in the regional offices.

Estimate for 1964 provides for continuing the 1963 employment level.

Legislative and Information Services

Mr. Thomas. Insert page 279 in the record. This is legislative and information services.

(The page referred to follows:)

2. Legislative and information services

	Amount	Average employment		
		Department	Field	Total
1963	$224,000	19.2		19.2
Change	+18,200	+0.8		+0.8
1964	242,200	20.0		20.0

HIGHLIGHT

Legislative and information services are performed under the direction of the Assistant Administrator. This Office advises and assists the Administrator and all other principal officials of GSA concerning congressional relations and legislative affairs, and in the formulation, development, and presentation of the legislative program of GSA. It also directs GSA information programs, including dissemination of all informational releases, and provides technical assistance and advice to GSA officers on all aspects of information.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Distribution by subactivity:						
(a) Legislative liaison	$100,782	8.5	$114,800	9.9	$121,200	10
(b) Information	81,514	7.4	109,200	9.3	121,000	10
Total cost or estimate (all departmental)	182,296	15.9	224,000	19.2	242,200	20

JUSTIFICATION

The legislative liaison staff develops the legislative program of GSA; reviews all statements prepared for presentation to Congress, supervises preparation of proper and prompt answers to all congressional inquiries, and maintains liaison with other Federal agencies and departments concerning congressional and legislative matters.

The information staff develops, coordinates, and disseminates on an agency-wide basis, informational data which will assist the business public including trade, manufacturing, and industry groups in transacting business with GSA. Objective is to assist private business and the public, and to enable GSA to discharge its responsibilities.

Estimate for 1964 provides for continuing the 1963 employment level.

EXPLANATION OF DISTRIBUTION BY OBJECTS

Personnel compensation and staffing: $205,000 for personal services distributed as follows (all departmental):

	1962	1963	1964
(a) Legislative liaison	9.0	10.0	10
(b) Information	8.0	10.0	10
Total positions	17.0	20.0	20
Average employment	15.9	19.2	20

Other objects: $37,200, of which $14,700 is for personnel benefits, including $13,300 retirement contribution, $900 health benefits, and $500 group insurance.

The remainder of $22,500, or 9.3 percent of total estimate, provides:

(1) $2,500 for approximately 80 days travel in connection with congressional affairs and liaison with Government agencies.

(2) $3,500 communications; $10,000 printing.

(3) $1,000 other services; $4,000 supplies and materials; and $1,500 equipment.

Allowances and Office Facilities for Former Presidents

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Allowances and pensions	90	85	75
2. Office staff and facilities	186	225	225
Total program costs, funded [1]	276	310	300
Change in selected resources [2]	−1		
Total obligations	276	310	300
Financing: Unobligated balance lapsing	24		
New obligational authority	300	310	300
New obligational authority:			
Appropriation	300	320	300
Proposed transfer to "Operating expenses, Public Buildings Service," due to pay increases (−)		−10	

[1] Includes capital outlay as follows: 1962, $4,000; 1963, $3,000; 1964, $3,000. Excludes adjustments of prior year costs, $15,000.

[2] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1961, $2,000; 1962, $1,000; 1963, $1,000; 1964, $1,000.

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation	107	150	150
12	Personnel benefits	8	11	11
13	Benefits for former personnel	90	85	75
23	Rent, communications, and utilities	47	40	40
24	Printing and reproduction	3	2	2
25	Other services	8	8	8
26	Supplies and materials	11	11	11
31	Equipment	2	3	3
	Total obligations	276	310	300

Mr. THOMAS. Allowances for former Presidents is next. Insert pages 286 and 287 in the record.

(The pages follow:)

ALLOWANCES AND OFFICE FACILITIES FOR FORMER PRESIDENTS

Summary reconciliation of 1964 estimate to 1963 funds

1963 appropriation in annual act	$320,000
Proposed transfer to "Operating Expenses, Public Buildings Service" due to pay increases	−10,000
Appropriation (adjusted)	310,000
Decrease in 1964: Allowances and pensions	−10,000
1964 estimate	300,000

Analysis by activities

Activities	1963 adjusted	Decrease	1964
1. Allowances and pensions	$85,000	$10,000	$75,000
2. Office staff and facilities	225,000		225,000
Total	310,000	10,000	300,000

1963 appropriation	$320,000
Transfer	−10,000
Comparative	310,000
Change	−10,000
1964 estimate	300,000

GENERAL STATEMENT

"This appropriation provides for allowances, office staff, furnished space, mailing privileges, communications, and office supplies and materials for three former Presidents." (From the budget for 1964.)

The 1964 estimate reflects a $10,000 reduction in requirements for allowances and pensions.

APPROPRIATION LANGUAGE

"For carrying out the provisions of the Act of August 25, 1958 (72 Stat. 838), [$320,000] *$300,000: Provided* That the Administrator of General Services shall transfer to the Secretary of the Treasury such sums as may be necessary to carry out the provisions of sections (a) and (e) of such Act."

JUSTIFICATION

1. *Allowances and pensions.*—$75,000. Provides for three former Presidents at $25,000 per annum. The $75,000 will be transferred to the Secretary of the Treasury who is responsible for making the payments under Public Law 85–745.
2. *Office staff and facilities.*—$225,000. These items are paid for directly by GSA. The staff is selected and compensation fixed by each former President who also specified the location of office space and is consulted as to equipment and furniture requirements. Provision is made for postage fees, local and long-distance telephone service, telegraph and cablegram; office supplies and materials; and miscellaneous services.

Mr. OSTERTAG. Under "Allowances and office facilities for former Presidents," the 1963 appropriation is $320,000 and estimated for 1964 is $300,000.

Mr. BOUTIN. The difference is brought about by the deaths of Mrs. Wilson and Mrs. Roosevelt. That is why we have that $20,000 reduction.

Mr. OSTERTAG. The allowances and pensions, that is $75,000 which provides for three former Presidents and $25,000 is the amount for each per annum; $75,000 will be transferred to the Secretary of the Treasury who is responsible for making the payments under Public Law 85–745.

Office facilities, $225,000.

In other words, there is an overall decrease of $20,000 in this activity. Under "Classification by objects"—

Mr. BOUTIN. We can give a complete breakdown here of the cost for each of the presidential offices if it would be helpful, Congressman.

Mr. OSTERTAG. It might be well if you give us that.

Mr. BOUTIN. Yes. Mr. Turpin can give it to you.

Mr. TURPIN. The $225,000 total for services other than the pensions is broken down as follows: President Hoover, $78,900, President Eisenhower, $85,600, President Truman, $60,500. That is in total, if the committee wishes—I can break it down into personnel compensation, benefits, transportation of things, et cetera.

Mr. OSTERTAG. I do not know that we need complete detail unless you have it handy where we might insert it in the record at this point.

Mr. TURPIN. Yes, sir.

Mr. BOUTIN. We would be happy to do that.

(The information requested follows:)

Allowances and office facilities for former Presidents

	1962					1963					1964				
	Total	Hoover	Eisenhower	Truman	Widows	Total	Hoover	Eisenhower	uman	Widows	Total	Hoover	Eisenhower	Truman	Widow
Pensions	$89,945	$25,000	$25,000	$25,000	$14,945	$85,000	$25,000	$25,000	$25,000	$10,000	$75,000	$25,000	$25,000	$25,000	
Office staff and facilities:															
Number of employees	18	8	4	6		15	7	2	6		15	7	2	6	
Personnel compensation	$106,968	$48,417	$20,430	$38,121		$150,000	$50,000	$50,000	$50,000		$150,000	$50,000	$50,000	$50,000	
Personnel benefits	7,863	3,427	1,495	2,941		11,000	3,700	3,600	3,700		11,000	3,700	3,600	3,700	
Transportation of things	372		372												
Rents and utility services	25,078	15,004	10,074			25,000	15,000	10,000			25,000	15,000	10,000		
Communications	21,839	4,317	13,022	4,500		15,000	4,200	8,000	2,800		15,000	4,200	8,000	2,800	
Printing and reproduction	2,531	2,531				2,000	2,000				2,000	2,000			
Other services	8,060	625	7,400	35		8,000	1,000	6,000	1,000		8,000	1,000	6,000	1,000	
Supplies and materials	11,046	1,751	7,942	1,353		11,000	2,500	6,500	2,000		11,000	2,500	6,500	2,000	
Equipment	2,479	600	1,879			3,000	500	1,500	1,000		3,000	500	1,50	1,000	
Office staff and facilities	186,236	76,672	62,614	46,950		225,000	78,900	85,600	60,500		225,000	78,900	85,600	60,500	
Total	276,181	101,672	87,614	71,950	14,945	310,000	103,900	110,600	85,500	10,000	300,000	103,900	110,600	85,500	

Administrative Operations Fund

Object classification

[In thousands of dollars]

		1962 actual	1963 estimate	1964 estimate
11	Personnel compensation:			
	Permanent positions	13,504	15,985	17,659
	Positions other than permanent	139	17	11
	Other personnel compensation	295	138	156
	Total personnel compensation	13,939	16,140	17,826
12	Personnel benefits	1,019	1,210	1,334
21	Travel and transportation of persons	227	257	345
	Payment to interagency motor pools	24	26	26
22	Transportation of things	60	79	102
23	Rent, communications, and utilities	1,436	2,379	2,536
24	Printing and reproduction	411	478	546
25	Other services	68	76	80
	Services of other agencies	63	70	72
26	Supplies and materials	172	220	268
31	Equipment	195	135	148
	Total obligations	17,613	21,070	23,282

Personnel summary

	1962 actual	1963 estimate	1964 estimate
Total number of permanent positions	2,240	2,428	2,543
Full-time equivalent of other positions	31	4	3
Average number of all employees	2,023	2,240	2,392
Number of employees at end of year	2,157	2,364	2,465
Average GS grade	7.4	7.5	7.5
Average GS salary	$6,755	$7,160	$7,193
Average salary of ungraded positions	$5,185	$4,961	$4,961

Program and financing

[In thousands of dollars]

	1962 actual	1963 estimate	1964 estimate
Program by activities:			
1. Finance and administration:			
(*a*) Financial management	7,436	8,265	8,947
(*b*) Management services	6,671	8,731	9,687
(*c*) Manpower resources	1,777	2,070	2,384
(*d*) Staff direction	415	496	534
Total, finance and administration	16,299	19,563	21,552
2. Legal services	1,230	1,408	1,630
Total program costs, funded [1]	17,529	20,970	23,182
Change in selected resources [2]	85	100	100
Total obligations	17,613	21,070	23,282
Financing:			
Comparative transfers to other accounts	579	----------	----------
Advances and reimbursements from other accounts (−)	−3,548	−9,159	−9,317
Unobligated balance lapsing	−78	----------	----------
Limitation	14,566	11,400	13,965
Proposed increase in limitation due to pay increases	----------	511	----------

[1] Includes capital outlay as follows: 1962, $195,000; 1963, $175,000; 1964, $173,000. Excludes adjustments of prior year costs of −$8,000.

[2] Selected resources as of June 30, are as follows: Unpaid undelivered orders, 1961, $223,000 (1962 adjustment, −$23,000); 1962, $285,000; 1963, $385,000; 1964, $485,000.

Mr. OSTERTAG. Now we turn to the administrative operations fund.

Mr. THOMAS. This is Mr. Turpin's fund. How many lawyers do you have?

Mr. MOODY. As of December 31, which is the last date I have, we have 122 people in the office. I have 72 lawyers and 50 nonprofessional as of right now, or as of December 31.

Mr. OSTERTAG. This involves your automatic data processing service, does it not?

Mr. TURPIN. This first item does not, Mr. Chairman. It is the customary staff services provided for all operations of GSA, including all the six services. It includes all of the financial management, including the accounting, audit, credit and finance, budget activities, all of the personnel management activities, including the recruitment, classification, and employee relations. It also includes the manpower utilization activity. This is a small group of people, a maximum of six right now, planned for eight, which will be working with each of the services in developing precise standards of productivity, for all of our activities and jobs in an effort to improve the productivity.

It also includes items of management services, our messenger, mail and file activity, our compliance activity, and personnel security. Also included is our procedures group which handles the development and publication of regulations and procedural releases for the General Services Administration.

Mr. Congressman, if I could just summarize very briefly, the increase of $1,853,700 under this activity. Of this total, $488,700 is directly related to the pay act increase, leaving a net increase of $1,365,000. Excluding the General Counsel's Office it represents an increase in average employment of 130 employees, most of whom are in the regions.

Mr. THOMAS. Mr. Ostertag, will you yield for one question?

Mr. OSTERTAG. Yes, sir.

Mr. THOMAS. May I suggest you put this table 291 in the record. It tells in detail what your estimate was in 1963 as against 1964.

(The table follows:)

ADMINISTRATIVE OPERATIONS FUND—PART I: CUSTOMARY STAFF SERVICES

Summary reconciliation of 1964 estimate to 1963 funds

A. LIMITATION ITEMS

1963 limitation in annual act		$11,400,000
Proposed for later transmission	$200,000	
Proposed pay act supplemental	511,300	
		711,300
1963 estimate (limitation)		12,111,300
1964 changes from 1963:		
Increased Pay Act costs		+488,700
Support for expanded programs as follows:		
PBS—Government-owned and leased space, and related services	$80,000	
PBS—Repair and improvement of Government-owned buildings	200,000	
FSS—Sales of common-use commodities	881,000	
TCS—Transportation and public utility functions and communication services	90,000	
UDS—Utilization and disposal of real and personal property	70,000	
Net effect of all other operatinng program changes	44,000	
		+1,365,000
Total estimate for 1964 (limitation)		13,965,000

B. EXCLUDED FROM LIMITATION

1963 allocations and reimbursements	2,733,000
1964 Changes from 1963:	
Increased Pay Act costs	+92,000
Decreased in various programs, net	−99,000
Total estimate, 1964 (nonlimitation)	2,726,000

Analysis by activities

Activities	1963 adjusted	Decreases	Increases	1964 estimate
Customary staff services:				
(a) Included in limitation:				
Finance and administration	$10,964,300		$1,640,700	$12,605,000
Legal services	1,147,000		213,000	1,360,000
Total	12,111,300		1,853,700	13,965,000
(b) Excluded from limitation:				
Finance and administration	2,480,200	$114,800	80,600	2,446,000
Legal services	252,800		27,200	280,000
Total	2,733,000	114,800	107,800	2,726,000

Mr. THOMAS. You go up in the neighborhood of $1.8 million for customary staff services under limitation. Your activities under limitation were to the tune of $11.4 million in 1963 and you want to go to about $14 million. That does not include ADP and that is about $5.8 million in 1963 and goes to about $6.6 million in 1964. Would it be wise to put that under limitation, too? You have grown rapidly. Your ADP is, for all practical purposes, only 4 years of age. You have gone from nothing up to around $6 million. Rental alone is $2 million. Where is your saving by virtue of that annual expenditure of $5 million for the last 3 years? Personnel costs are up and ADP costs are up. You can hang your hat on Mr. Bean's shoulder.

AUTOMATIC DATA PROCESSING

Mr. OSTERTAG. Under page 290 you set forth the statement "However, for accounting convenience ADP is financed through this fund instead of through a separate revolving fund."

Mr. TURPIN. That is correct.

Mr. OSTERTAG. The chairman has raised a point.

Mr. TURPIN. On the ADP activities, Mr. Chairman, it is true that the cost of the ADP function as such has gone up but we just went into the computer activity, after but a small beginning in 1958 and 1959. This is a field which is just developing, not only in GSA but in industry as a whole. Sir, I would like to say if we did not make use of the computers, which we are now doing, it would have been difficult, and I am convinced more costly, to handle the increased operation that we have under the supply program.

Mr. THOMAS. What is your total employment?

Mr. TURPIN. The estimate for 1964 for all the customary staff services is 1,880, including legal.

Mr. THOMAS. What was this for 1963?

Mr. TURPIN. 1,730. That is in customary staff services, excluding the ADP.

Mr. THOMAS. 1,880, this year against what last year?

Mr. TURPIN. 1,880 proposed for 1964 against 1,730 for this year for customary staff services.

ADP COSTS RELATED TO FEDERAL SUPPLY

Mr. THOMAS. What part of that is assigned to the Federal Supply Service?

Mr. TURPIN. On the customary staff services, excluding ADP, it is one-third, or 33 percent related to the supply operation. For the ADP activity it is presently 75 percent related to the supply operation and that is because in applying our ADP applications to the supply operation——

Mr. THOMAS. What part of supply is not under limitation and due to your ADP?

Mr. TURPIN. Sir——

Mr. THOMAS. Is that over and above your 1,880? We are referring to employees.

Mr. TURPIN. The 1,880 for fiscal 1964 and 1,730 for fiscal 1963 cover customary staff services excluding ADP.

Mr. THOMAS. What is in addition to it? How many do you have in ADP?

Mr. TURPIN. 512, sir, but if I could, Mr. Chairman——

Mr. THOMAS. How many did you have in 1963 in ADP?

Mr. TURPIN. 468, but I would like to point out on the ADP side the line items for example, which is a good measure of the ADP workload insofar as the supply operation, was 4 million in 1960, the estimate for 1964 is 8.4 million, more than double; also the unit cost per hundred dollars of sales for the ADP is $1.37 in 1964. The cost for the customary staff services is $1.54, making a total for all of the AO activities, customary srevice, and ADP of $2.91. The cost has decreased from a high of $3.52 in 1957, and $3.36 in 1960 to $2.91 estimated for 1964.

Mr. BOUTIN. Of course, the fact of the matter is, Congressman, that unless we had this ADP equipment in its present state, with common language for all of the computers and its standardized performance we could not operate at all. You could not do it on a manual basis. It would be absolutely impossible.

COMPARISON TO INDUSTRY ACCOUNTING

Mr. TURPIN. Mr. Chairman, comparing our accounting operations with industry, there was an article in the American Management Association publication in the June issue which we refer to at the top of page 294. This is merely an indicator of the relationship of the accounting people to the total employment in these organizations. Of the 254 companies that were identified, there was 49,750 in the accounting field related to a total employment of 1,250,000, or percentagewise there was 3.9 percent in accounting for manufacturing industries, and 5.4 percent for all other companies. Our actual ratio in GSA was 2.6 percent for 1962. Under the estimates that are now before the committee, it would come down to 2.54 percent in 1964, so we are even showing an improvement over what we had in 1962.

Most of this increase, excluding ADP, in the customary staff services is for the regional offices in the accounting activity and in the personnel activity and that is where the load hits us, particularly the accounting workload for the supply operation. The increased volume of business means more invoices to pay, and more billings to process. In that connection, we show a continual improvement in the cost for handling billings and in the cost for handling our vouchers.

GSA RATIO OF PERSONNEL EMPLOYEES

In the personnel field there is a standard which was established under the Independent Offices Appropriation Act, of 1 personnel employee to 135 employees in an agency. GSA's ratio for 1963 is 1 personnel person to 201 employees in the agency, and under the estimate before the committee for 1964 it will spread to 1 to 206. In the personnel field we are not doing the kind of job we should. We are developing a lot of backlogs. The Civil Service Commission in its inspections has been critical of us in several areas where we are not maintaining the standards we should.

We find a large percentage of personnel in our key positions in GSA who will be retiring in the next 4 or 5 years; we do not have adequately qualified people who are being developed to step in. This is one area which we would like to improve a great deal. As a matter of fact, the Administrator has insisted that we do a better job in this area, but we do need some increase in our personnel managament in order to accomplish it.

Customary Staff Services

Mr. Ostertag. Under the administrative operations fund it breaks down into two parts as I see it, the customary staff services and then the finance and administration legal services.

Under customary staff services here again you have an increase of $1,606,500, as between 1963 and 1964.

Total field employment is increased by 103 and the total department increase is 27 but you have an overall increase in fiscal 1964 to 1,725 of which 1,192 employment would be in the regions. That is under justification page 297.

Mr. Turpin. Yes, sir. That just relates to the financial management.

Mr. Ostertag. Finance and administration.

Mr. Turpin. Yes, sir.

Mr. Chairman, under the customary staff services we have four offices: Office of Financial Management, Office of Management Services, Office of Manpower Resources, and Staff Direction; the last mentioned is my immediate office with counterparts in each of the regions.

That plus legal is the total for the area. The other part of the administrative operations, under that next tab, is the automatic data processing.

FINANCE AND ADMINISTRATION

Mr. Ostertag. We will insert in the record, pages 297, 298, and 300, and also pages 308, 309, and 310.

(The pages follow:)

Customary Staff Services

1. Finance and Administration

	Amount	Average employment		
		Department	Field	Total
1963	$13,444,500	505.5	1,089.5	1,595.0
Change	+1,606,500	+27.2	+102.8	+130.0
1964	15,051,000	532.7	1,192.3	1,725.0

HIGHLIGHT

On May 8, 1962, the Office of Administration and the Office of Comptroller were combined under an Assistant Administrator for Finance and Administration with three major components: (1) Office of Financial Management, (2) Office of Management Services, and (3) Office of Manpower Resources.

Finance and administration services are performed in the central office and in each of the 10 regions. Principal subactivities of the three offices and staff direction are discussed in detail in the justifications that follow:

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Distribution:						
(a) Financial management	$7,504,954	961.3	$8,136,000	1,004.0	$8,991,000	1,085.0
(b) Management services	2,650,097	318.3	2,741,300	317.0	3,136,000	338.0
(c) Manpower resources	1,777,070	210.9	2,066,600	233.0	2,394,000	261.0
(d) Staff direction	415,308	36.7	500,600	41.0	530,000	41.0
Total cost or estimate	12,347,429	1,527.2	13,444,500	1,595.0	15,051,000	1,725.0
Distribution by location:						
Departmental	4,815,413	481.1	5,293,000	505.5	5,864,200	532.7
Regional	7,532,016	1,046.1	8,151,500	1,089.5	9,186,800	1,192.3

(A) FINANCIAL MANAGEMENT

Financial services for all GSA programs are provided under this activity. This includes all phases of budget administration; accounting and reporting; credit extension and financial analyses; conduct of audits; accounting, billing, and collection operations. Government-wide inventories of real property are developed and assistance is provided other executive agencies with property accounting systems.

Financial services are performed in the central office through 5 principal subactivities with operations of all except audit extending to each of the 10 regional offices.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
1. General supervision	$72,306	5.6	$208,300	171.5	$291,800	24.0
2. Accounting and reports management	50,51,054	716.6	5,408,000	743.5	5,954,000	807.5
3. Audit	957,665	92.6	1,016,000	93.0	1,132,400	98.0
4. Budget	945,559	96.3	1,002,600	100.0	1,083,400	103.0
5. Credit and finance	478,370	50.2	501,100	50.0	529,400	52.5
Total cost or estimate	7,504,954	961.3	8,136,000	1,004.0	8,991,000	1,085.0
Distribution by location:						
Departmental	2,599,050	247.8	2,770,100	255.0	3,012,500	268.0
Regional	4,905,904	713.5	5,365,900	749.0	5,978,500	817.0

1. General supervision

Overall direction and coordination of financial management for all programs of GSA are provided by the Director of Financial Management in the central office, and by a counterpart in each of the 10 regions.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Distribution by location:						
Departmental	$25,502	2.0	$42,000	3.5	$52,600	4.0
Regional	46,804	3.6	166,300	14.0	239,200	20.0
Total cost or estimate	72,306	5.6	208,300	17.5	291,800	24.0

Increase of 6.5 man-years reflects full year utilization of 1963 staffing.

2. Accounting and reports management

All accounting and related management functions are performed as follows:

Departmental

Formulates, designs, prescribes, and installs all GSA accounting and financial reporting policies and systems; develops and maintains a system of management reports for use of Administrator and other management officials with emphasis on analysis of performance against annual plans, goals, unit costs, etc.; reviews financial systems and reports for continuing effectiveness and for management purposes to ascertain continued adherence to prescribed systems; maintains personal day-to-day liaison with Service and staff operating personnel to assure that reported data is currently useful, meaningful and essential; prepares recurring consolidated and special reports; reviews and approves selected financial information prepared by GSA services for outside release and inclusion in governmentwide reports; develops in cooperation with GAO, governmentwide property accounting and reporting systems in executive agencies and prepares comprehensive governmentwide annual inventory report; and performs periodic management surveys and analyzes survey findings and submits recommendations to increase operational effectiveness and efficiency in accounting and reporting operations.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Total cost or estimate	$775,010	72.0	$854,000	78.0	$894,000	81.0

Regional operations

Provides for payment of invoices, examining, certifying, and scheduling of vouchers processing of bills and accounting documents, payrolling of employees, the reconciliation of accounts, and financial reports.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Distribution:						
(*a*) Supervision	$248,170	28.2	$339,000	33.5	$387,000	39.0
(*b*) Invoice payments	1,482,906	236.7	1,543,000	243.0	1,751,000	270.8
(*c*) Employee accounts	415,231	65.9	436,000	68.0	450,000	68.0
(*d*) Accounting	2,129,737	313.8	2,236,000	321.0	2,472,000	348.7
Total cost or estimate	4,276,044	644.6	4,554,000	665.5	5,060,000	726.5

(*a*) *Supervision.*—Field supervision is provided for all operational functions of Accounting and Reports Management Division in each of the 10 regional offices. The staffing includes the regional directors of financial management, secretaries, reports management analyst, and accounting trainees in the 10 regional offices.

The 1964 increase of 5.5 man-years reflects further emphasis on the analysis and review of financial data and program reports required by regional and central office management.

(*b*) *Invoice payments.*—Consists of examining, certifying, and scheduling of vouchers and invoices for payment.

The tabulation and graph on opposite page illustrates the increased efficiency in processing vouchers during the period 1957 through 1962 with estimates for 1963 and 1964. The number of vouchers processed per man-year has increased from 2,350 in 1957 to 4,665 in 1962; the estimates for 1963 and 1964 project in excess of 5,000 vouchers per man-year, the greatest output at the lowest unit cost in GSA history. Increase of 27.8 man-years is needed in 1964 to insure prompt payment to suppliers and to prevent backlogs, excessive use of overtime, lost discounts, or substandard examination processes.

(c) *Employee accounts*—Provides for payrolling of all GSA employees. The following illustrates improvements in payroll productivity and unit costs since 1957.

Year	Employees payrolled	Payroll man-years	Unit cost per employee payrolled	Average number employees payrolled per man-year	
				Number	Percent change from 1957
1957	26,694	97.0	$16.79	275	
1958	27,331	95.4	17.96	286	4
1959	27,938	81.8	16.53	342	24
1960	28,202	72.0	14.31	392	43
1961	29,180	67.8	14.49	430	56
1962	30,774	65.9	13.49	467	70
1963 (estimated)	33,509	68.0	13.01	493	79
1964 (estimated)	36,831	68.0	12.22	542	97

The 1964 estimate anticipates a workload increase of 10 percent from 1963; however increased efficiency and further application of ADP methods is contemplated and no increase in man-years is requested.

(c) *Paperwork management programs.*—The continuous development and administration of an internal directives system for the agency provides a media for the efficient communication, to all affected elements of the agency, of program policies, opertaing procedures, and information. In addition, the control and operation of an external issuance system provides an official link from GSA to officials of other agencies whose duties involve operating relationships with GSA programs.

The analysis, control, and development of GSA forms and GSA-sponsored standard forms facilitates the accomplishment of GSA programs by providing efficiently designed forms for the recording, transmission, and retention of information.

The records management program develops standards and criteria to assure that up-to-date, efficient methods are used in the creation, filing, retrieval, and ultimate retirement or disposal of GSA records. This aids in the efficient operation of work stations throughout GSA and helps reduce requirements for filing equipment and office space.

(C) MANPOWER RESOURCES

This activity highlights the manpower program of GSA by placing under unified direction (1) the comprehensive personnel management program; (2) agencywide coordination of the fair employment program; (3) the manpower utilization program for development of production standards; and (4) the GSA institute program to make available to employees of other agencies training and instructional materials dealing with those areas within GSA's Government-wide responsibilities.

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Services of manpower resources are performed in the central office through all 5 subactivities with only personnel services performed in each of the 10 regions.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Distribution:						
1. General supervision	$57,050	5.0	$76,800	6.0	$79,300	6.0
2. Personnel	1,684,791	203.2	1,871,300	217.5	2,134,200	240.8
3. Fair employment	35,229	2.7	47,600	3.5	60,000	4.0
4. Manpower utilization	0	0	48,300	4.0	79,300	7.0
5. GSA institute	0	0	22,600	2.0	41,200	3.2
Total cost or estimate	1,777,070	210.9	2,066,600	233.0	2,394,000	261.0
Distribution by location:						
Departmental	552,450	56.6	717,400	69.5	829,500	77.2
Regional	1,224,620	154.3	1,349,200	163.5	1,564,500	183.8

1. General supervision

Overall direction and coordination for all manpower programs of GSA are provided in the central office by the Director and his assistants.

No increase in employment is contemplated in 1964 over that of 1963.

2. Personnel

A comprehensive personnel program is conducted to accomplish high standards of employee performance; develop a career service to attract and retain qualified employees; continuously evaluate methods and procedures used in recruitment, job classification, training, and processing to provide more economical and efficient agency services. Functions performed include recruitment, placement, training, classification, wage administration, incentive awards, counseling, and the provision of employee relations services.

	1962		1963		1964	
	Amount	Average employment	Amount	Average employment	Amount	Average employment
Distribution by location:						
Departmental	$460,171	48.9	$522,100	54.0	$569,700	57.0
Regional	1,224,620	154.3	1,349,200	163.5	1,564,500	183.8
Total cost or estimate	1,684,791	203.2	1,871,300	217.5	2,134,200	240.8

Workload in personnel management is increasing at a very rapid rate in 1963 and 1964 over 1962. The ratio of personnel employees involved in servicing all GSA employees is much higher than the Independent Offices Appropriation Act standard of 1 to 135 and in spite of modest funding increases in 1963 and 1964, this adverse ratio continues to increase.

Due to the complexity of the GSA organization, it is a continuing problem to recruit and retain qualified professional personnel to assure efficient exercise of GSA's responsibilities under law. An orderly flow of younger capability and training of incumbents, where appropriate, are essential to enable GSA to operate effectively within its limited resources.

Additional funds of $47,600 in central office and $215,300 in the regional offices for 1964 are only sufficient to meet the most urgent demands upon the personnel management area. These additional resources will be applied: (1) To training for the purpose of increased employee proficiency, (2) a very modest recruitment effort among university students for career fields of interest to GSA and, (3) provide minimum staffing to deal with employee relations matters including appeals from adverse actions under Executive Order 10987.

A total of 23.3 additional man-years is requested of which only 3 will be central office, the balance of 20.3 being applied to the 10 regions for the personnel management program in 1964. Workload is as follows:

	1962	1963	1964
Wage schedules issued	189	195	198
Job standards issued	6	11	14
Employment actions	32,190	37,500	40,000
Co-op work-study plans		16	20
Board of examiner applications rated	7,365	7,625	8,250
Noncompetitive actions reviewed	1,150	1,250	1,375
Management interns trained		15	20
Career development programs	2	7	11
Incentive awards	4,245	4,900	5,200
Adverse action appeals	490	550	750
Employees serviced	30,774	33,509	36,831
Personnel	161.2	166.5	178.8
Overall personnal ratio [1] (1 to 135 in Independent Offices Appropriation Act)	1:191	1:201	1:206

[1] Excludes man-years devoted to training, incentive awards, and boards of examiners.

Increased productivity is projected for 1964 in the personnel management program by reducing the time required to process classification actions, reducing the turnover rate of GSA personnel, and generally streamlining procedures in order to improve services to the agency.

3. Fair employment

No increase in employment is contemplated in 1964 despite an anticipated increase of 300 contract compliance reports resulting from expanded activities of the President's Committee on Equal Employment Opportunity. The increase of $12,400 represents full-year financing of one analyst who was only partially financed in 1963, and provides for additional travel in connection with the increased contracts compliance program.

4. Manpower utilization

The manpower utilization activity is designed to plan, develop, and coordinate the overall GSA program for increasing employee productivity. Technical consultant advice and assistance is provided to the GSA services and staff offices in the establishment of production, performance, and work standards based upon objective engineered and statistical data, and in the determination of manpower needs in terms of measured employee productivity for use in projecting resources and manpower requirements for program planning and budgetary purposes. Training is given to technical and supervisory employees in the services and staff offices in the operation and use of appropriate productivity measurement systems.

The increase of $31,000 provides for two additional employees, and will permit the assignment of a manpower utilization analyst to each major organizational element in GSA.

5. GSA institute

This budget will finance four positions in 1964, from the administrative operations fund as the focal point for the GSA Institute program to provide professional guidance for and coordination of all GSA efforts in providing training and instructional materials to augment the skills of employees of other agencies, thereby strengthening the business operations and management of the Federal Government. This program contributes to the implementation of section 2 of the Federal Property and Administrative Services Act of 1949, as amended, to provide for the Government an efficient system of procurement, property management, records management, and administrative services. It also aids in carrying out the intent of the Government Employees Training Act of 1958, to promote economy and efficiency in Government operations by "the building and retention of a permanent cadre of skilled and efficient Government employees, well abreast of scientific, professional, technical, and management developments both in and out of Government."

Additional financing will be provided to the extent necessary by recovering costs from participating Government agencies for specific training provided under the institute in ratio to the number of their participants.

Mr. THOMAS. Take a look at the green sheets. Page 312 is the summary for customary staff services, finance, and administration. That tells the tale pretty well.

Mr. OSTERTAG. Still under "Administrative operations," you have the green sheet which shows again the administrative operations. Note the figure of 1,725 as against 1,595 for full-time average employment.

Mr. TURPIN. For comparison of 1964 with 1963 it would be 1,725 average employment against 1,595 average employment. This excludes legal.

Mr. BOUTIN. In positions there is a total increase of 81, Congressman.

OTHER OBJECTS OF EXPENSE—CUSTOMARY STAFF SERVICES

Mr. TURPIN. Page 322 reflects all of the other objects for the customary staff services of the administrative operations fund. The explanation is on page 321.

Mr. OSTERTAG. This is a general overall "Other objects," which gives us the picture, among other things, other objects, $2,223,300, of which $1,083,000 is for personnel benefits, including contributions to the retirement fund, health benefits, group insurance and FICA, travel and transportation of persons; $267,000, including $22,500 by travel for the motor pool and 9,074 travel days; $45,000 for shipping charges for equipment and records.

Mr. TURPIN. Under "Transportation of things," there is an increase from $35,400 to $45,000. The chief reason for that increase is our proposal for relocating 13 of our auditors in 1964, and that is just about what it will cost us to handle their transfer of household goods.

Mr. THOMAS. $286,500 is for communications services, and yet on the green sheets it shows the total of $284,500.

Is that the difference between that $2,000 for other equipment rentals?

Mr. TURPIN. That is correct, sir. It shows $286,500, which is the sum of the $284,500 and the $2,000.

Mr. THOMAS. Mr. Ostertag.

Mr. OSTERTAG. Printing and reproduction is up about $10,000. Why is that?

Mr. TURPIN. Sir——

Mr. OSTERTAG. That totals $185,600, as compared with $175,200 for 1963.

Mr. TURPIN. That is correct, sir. It is up about $10,000. Actually, our experience this year, as of December 31, for our printing bill was $105,000. The $185,600 is really less than our going rate for this year.

Mr. OSTERTAG. Personnel compensation is $14,467,000 as compared with $12,854,000 for 1963.

Mr. TURPIN. Yes, sir. That is based on an increase in average employment from the 1,730 to the 1,880, which includes all of the staff areas, financial management, management services, manpower resources, personnel, and also the legal office.

AUTOMATIC DATA-PROCESSING SERVICES

Mr. OSTERTAG. Under page 323, we have administrative operations, automatic data-processing services. A summary of the 1964 estimates over 1963 fund is listed. We will insert pages 323 through 327 in the record at this point.

(The pages referred to follow:)

AUTOMATIC DATA-PROCESSING SERVICES

Summary reconciliation of 1964 estimate to 1963 funds

1963 Allocations and reimbursements	$5,841,700
1964 Changes from 1963:	
Increased Pay Act costs	+133,100
Support for new and expanded programs as follows:	
FSS-sale of common use commodities	508,000
TCS-Transportation and public utility functions and communications services	60,000
Net effect of all other operating program changes	48,200
Subtotal	+616,200
Total ADP estimate for 1964	6,591,000

Analysis by activities

Activity	1963	Decrease	Increase	1964 estimate
1. Finance and administration	$5,841,700	----------	$749,300	$6,591,000

1. Finance and administration

		Average employment		
	Amount	Department	Field	Total
1963	$5,841,700	73.0	395.0	468.0
Change	+749,300	+5.0	+39.0	+44.0
1964	6,591,000	78.0	434.0	512.0

HIGHLIGHT

The automatic data processing activity of GSA is a responsibility of management services in GSA. It controls the planning, design installation, and operation of all ADP systems and equipment used for GSA's programs.

The automatic data processing program had its beginning in 1952, when the volume of business in the Federal supply program began to rise and it became evident that we could no longer depend on manual recordkeeping for handling the large volumes of paperwork involved in inventory control, purchasing, selling, and shipping merchandise from our depots.

Initially, data processing was performed on punched-card equipment. The first FSS order processing system was pilot tested in Atlanta in 1952 and was gradually extended to all regional offices. Simultaneously, other systems were programed for machine application. The systems covered such areas as cost, budgetary and property accounting, buildings management, repair and improvement, and defense materials inventories.

In 1955, it became evident that the punched-card equipment would become saturated and we would have to move into computer operations to handle major workload increases. Accordingly, a small-scale computer was installed and a supply order processing and inventory management system was pilot tested in one region. The system was successful; and, because of the many benefits it produced for the Federal Supply Service, it was extended to four additional regions by 1961. The machines were also used for other applications such as payrolling, bill of lading preparation, and maintenance of budgetary accounting.

Beginning in 1960 and on a continuing basis there has been a substantial step-up in GSA's supply support activities to DOD. FSS stores warehouse sales increased from $145.5 million in 1959 to $229.6 million in 1962. Also, in October 1961 the DOD announced its intent to adopt milstrip (military standard requisitioning and issue procedure), effective on July 1, 1962.

The expected benefits to DOD from adoption of milstrip were reported to the President by the Secretary of Defense in a memorandum dated July 5, 1962, which read in part as follows:

"(*b*) Standardization of requisitioning procedures: At present, 16 different forms and systems are used throughout the Department. This results in rewriting 280,000 requisitions each day when 1 service buys from another. On July 1, 1962, all services and DSA will adopt the same system. The value of time saved is $20 million per year. In addition, procurement action will be accelerated."

Implementation of milstrip by DOD was contingent, in part, on the ability of GSA to modify its ADP systems in time to start accepting milstrip requisitions on July 1, 1962. Accordingly, a crash program was started whereby GSA acquired new computers for its 10 regional offices and developed and programed a new FSS order processing and related accounting system for these machines. The conversions from existing equipment were accomplished on schedule and the new systems were operating successfully on July 1, 1962.

EQUIPMENT CONFIGURATIONS

During 1963 and 1964 we will operate 10 ADP installations utilizing 9 small-scale card-oriented computers and 1 medium-scale tape-oriented computer in region 3 as well as offline electric accounting machine units. Based on long-range projections of the volume of business to be handled by the various GSA operating programs, it now appears that the present ADP equipment will soon become saturated in several regions and that tape-oriented equipment will be needed at that time. We are now in the process of developing long-range systems specifications and plan to issue them by the end of fiscal year 1963. The specifications will enable computer manufacturers to submit proposals for equipment to handle our projected workload. New equipment will probably be available for installation in fiscal year 1965, consequently only a minor increase in cost for equipment rental is included in this budget.

JUSTIFICATION

For accounting convenience, the ADP program is handled within the administrative operations fund instead of through a separate revolving fund. Detailed timekeeping and cost records are maintained to show the staff and machine time used for each program area. The ADP activity services all programs and appropriations of GSA as well as small commissions and agencies on a reim-

bursable basis. The sources of financing for the program in 1962, 1963, and 1964 are shown in the following tabulation:

Sources of financing	1962		1963		1964	
	Equivalent man-years	Performance	Equivalent man-years	Financing	Equivalent man-years	Estimate
Operating expenses, PBS	53.8	$578,655	60.8	$761,000	60.7	$781,000
Repair and improvement, PBS	7.2	77,365	8.1	101,000	7.9	102,000
Operating expenses, FSS	261.3	2,811,790	350.8	4,374,700	388.2	4,997,000
Operating expenses, UDS	6.7	71,560	7.3	92,000	7.3	94,000
Operating expenses, NARS	3.0	32,565	4.9	61,300	5.4	70,000
Operating expenses, TCS	9.2	98,910	4.1	51,200	8.7	112,000
Strategic and critical materials, DMS	7.3	78,548	5.7	71,500	5.6	73,000
Sites and expenses, PBS	2.3	24,788	4.5	56,200	4.5	57,500
Additional court facilities	.5	4,864				
Expansion of defense production	1.5	15,945	1.2	15,300	1.2	15,600
Buildings management fund	9.3	100,152	8.2	102,100	8.1	104,300
Interagency motor pools	10.0	108,483	9.2	114,700	9.2	118,800
Construction services fund	1.0	10,405	.8	10,200	.8	10,400
Lead and zinc stabilization			.4	5,100	.9	10,200
Office of Emergency Planning	.3	3,284	1.0	13,200	1.2	16,000
Commodity Credit Corporation	.3	3,738	.9	11,200	1.0	12,500
Other sources	.1	1,027	.1	1,000	1.3	16,700
Total	373.8	4,022,079	468.0	5,841,700	512.0	6,591,000

The estimate for 1964 includes $254,000 for increased pay costs as a result of the Federal Salary Reform Act of 1962.

It will be noted from the above tabulation that the primary source of financing is the "Operating expenses, FSS" appropriation. The Federal Supply program is the largest mass paperwork operation in GSA and has been mechanized to the extent feasible at this time. A distribution of machine and man-hours utilized for each major program area in fiscal 1962 follows:

Program area	Machine-hours used		Man-hours used	
	Number	Percent of total	Number	Percent of total
Real property management, PBS:				
A. Real property, general	5,145	1.1	19,486	2.7
B. Buildings management	66,605	14.0	111,747	15.6
C. Repair and improvement	5,450	1.1	9,828	1.4
D. Public buildings projects	1,356	.3	5,550	.8
E. Construction services	1,812	.4	2,079	.3
Personal property management, FSS:				
A. Federal supply, general	1,383	.3	7,061	1.0
B. Supply distribution	327,122	69.0	480,708	67.2
C. Civil defense warehousing	594	.1	676	.1
Records management, NARS	2,667	.5	6,428	.9
Utilization and disposal, UDS	8,205	1.7	13,800	1.9
Additional court facilities	827	.2	8,785	1.2
Transportation and communications:				
A. General	6,694	1.4	9,496	1.3
B. Interagency motor pool	20,521	4.3	21,781	3.0
Defense procurement, DMS:				
A. Strategic and critical materials	7,946	1.7	14,206	2.0
B. Defense production	623	.1	3,126	.4
C. Commodity Credit Corporation, barter program	610	.1	763	.1
Other programs	176		216	.1
Leave			92,171	[1] (11.4)
Staff operations	17,512	3.7	[1] (67,737)	
Total	475,248		807,907	

[1] ( ) Nonadd.

	1962		1963		1964	
	Amount	Man-years	Amount	Man-years	Amount	Man-years
Distribution:						
Planning and development (departmental only)	$650,381	63.0	$926,000	73.0	$1,036,500	78.0
Regional operations	3,371,698	310.8	4,915,700	395.0	5,554,500	434.0
Total cost or estimate	4,022,079	373.8	5,841,700	468.0	6,591,000	512.0

The objective of the ADP program is to automate, whenever practical, the paperwork operations of all major GSA programs on a uniform, national basis, provided significant management benefits can be realized. To date, benefits have been realized by GSA program managers from automation and in many instances an increased capability has been aided by ADP, allowing increased workload to be processed at a reduced unit cost with increased productivity and manpower utilization.

An example of marked improvement in cost of doing business where automation has played a significant role is found in GSA's supply program: the cost per $100 of FSS warehouse shipments (stores stock sales) during the last 10 years decreased from $9.11 in 1952 to $4.82 in 1962 for a net decrease of $4.29. During the same period workload increased 258 percent and costs were on the rise due to several pay raises, inflation, and other factors. If the 1962 workload were processed under procedures in operation in 1952, obligations for warehouse sales would have been $20,916,560 instead of $11,069,452. A substantial part of these savings is attributed to automation of the related paperwork. Similar benefits have been realized in processing of certain accounting documents.

	Accounting documents		
	Number	Man-years	Average per man-year
1957	1,162,632	544.9	2,134
1962	1,900,800	313.8	6,057
Change	+738,168	−231.1	+3,923

Mr. THOMAS. That about wraps it up, Mr. Ostertag.

Mr. TURPIN. With the ADP equipment that we now have, we estimate that our saturation point will be reached about October 1964. This means that we must have more capable equipment in use by 1965. Because of the long leadtime for procuring ADP equipment, we are working with the Supply Service in developing new procedures for handling the greater volume of supply operations and determining what the long-range equipment requirements will be.

Mr. THOMAS. What about the machine the Comptroller General criticized? Are you going to keep that?

Mr. TURPIN. No, sir.

Mr. THOMAS. What rent are you paying on that machine?

Mr. TURPIN. We have not had that, Mr. Chairman, since last March.

Mr. THOMAS. You got rid of it?

Mr. TURPIN. Yes, sir.

Mr. THOMAS. Does that wrap it up, Mr. Ostertag?

Mr. OSTERTAG. Yes, sir.

REPAIRS, IMPROVEMENTS, AND CONSTRUCTION FINANCED FROM ARA FUNDS

Mr. JONAS. Before you close, would you permit me to ask one question?

Mr. THOMAS. Yes.

Mr. JONAS. GSA is currently engaged in repair and improvements to certain public buildings, post offices, and other public buildings in the country under funds provided by the Area Redevelopment Administration under the accelerated public works program; is that correct?

Mr. BOUTIN. The only part that we are playing right as of this minute, sir, in this program is for the Post Office which had funds allocated under the accelerated public works from ARA and these in turn were turned over to us with specific projects to accomplish.

Mr. JONAS. I think we ought to have a list in the record of those projects that are being financed out of those funds.

Mr. THOMAS. Yes. That will be helpful. You might complete your list and give a list of all the projects and the cost figures that you act as agent for all the other agencies of Government. Of course, that is charged in your buildings management fund, but as Mr. Jonas suggests, set out these under area development, these you operate as a transfer fund and give the total in a table showing the dollar value.

Mr. BOUTIN. Would you like to have the new construction as well as repair and improvement?

Mr. THOMAS. Yes.

Mr. BOUTIN. We will break it down by category.

MOTOR POOL SAVINGS

Mr. JONAS. There is only one other thing I would like to have when they correct the record. I notice in the motor pool management section they did not do as they usually do, make some claims about how much savings that motor pool operation is entitled to credit for.

I wish you would put a table in when you see the record to show that, with the chairman's permission.

Mr. BOUTIN. We will be happy to.

(The information requested follows:)

Estimate, fiscal year 1963—Comparative interagency motor pool statistics

Interagency motor pools			Reported by agencies for the survey period (including additional consolidations from date of determination)				Cost per mile adjusted by BLS-CPI [1] to Dec. 31, 1962	Actual under pool system, 1st half, fiscal year 1963 projected for 1 year				Comparison agencies reported versus pool actual			
Region	Pool	Location	Number of vehicles required	Total miles traveled (millions)	Average miles per vehicle years	Cost per mile (cents)		Number of vehicle years	Total miles traveled (millions)	Average miles per vehicle year	Cost per mile (cents)	Increased miles traveled (millions)	Average miles per vehicle year increase	Savings per mile (cents)	Total savings (dollars)
1	1	Boston	341	2.756	8,082	9.90	10.60	399	4.579	11,477	6.63	1.823	3,395	3.97	181,786
	2	Providence	126	1.087	8,627	11.26	11.36	140	1.469	10,493	7.53	.382	1,866	3.83	56,263
	3	Hartford-Springfield	208	1.702	8,182	11.78	12.01	152	1.709	11,243	7.94	.007	3,061	4.07	69,556
	4	Portland, Maine	159	1.723	10,836	11.95	12.36	158	2.072	13,114	7.60	1.353	349	4.76	98,627
2	1	New York City	874	6.084	6,961	12.92	13.31	968	10.029	10,361	8.06	3.945	3,400	5.25	526,523
	2	Philadelphia	399	3.339	8,368	9.60	9.62	458	5.137	11,216	7.39	1.798	2,848	2.23	114,555
	3	Pittsburgh	317	2.427	7,656	14.36	14.39	302	3.293	10,904	9.38	.866	3,248	5.01	162,274
	4	Buffalo	192	1.814	9,448	10.42	10.82	186	2.138	11,495	8.04	.324	2,047	2.78	59,436
	5	Albany	252	2.403	9,536	10.19	9.56	233	2.758	11,837	7.68	.355	2,301	1.88	51,850
	6	Harrisburg	164	1.697	10,348	9.74	10.10	147	2.019	13,735	7.15	.322	3,387	2.95	59,561
	7	San Juan	215	1.451	6,749	12.24	12.24	218	1.828	8,385	9.56	.377	1,636	2.68	48,990
3	1	Washington, D.C.	998	5.642	5,653	13.98	15.84	1,064	8.770	8,242	10.76	3.128	2,589	5.08	445,516
	2	Baltimore	205	1.872	9,132	11.09	10.57	226	2.539	11,235	7.83	.667	2,103	2.74	69,569
	3	Richmond	158	1.819	11,513	9.93	10.01	179	2.231	12,464	7.23	.412	951	2.78	62,022
	4	Norfolk	152	1.267	8,336	11.31	10.68	153	1.624	10,614	7.88	.357	2,278	2.80	45,472

4	1	Atlanta	617	5.721	9,272	7.81	8.31	600	7.444	12,407	6.28	1.723	3,135	2.02	151,113
	2	Nashville	192	2.306	12,010	8.05	9.19	196	2.534	12,929	6.60	.228	919	2.59	65,631
	3	Memphis	281	2.794	9,943	8.45	10.04	314	3.982	12,682	7.55	1.188	2,739	2.49	99,152
	4	Raleigh-Durham	224	2.516	11,232	8.64	8.84	219	3.149	14,379	6.11	.633	3,147	2.73	85,968
	5	Tampa-St. Petersburg	187	1.746	9,337	9.62	10.28	232	2.403	10,448	7.13	.657	1,111	3.15	75,695
	6	Miami	179	1.626	9,084	8.64	9.26	226	2.522	11,159	7.09	.896	2,075	2.17	54,727
	7	Jackson-Vicksburg	233	2.512	10,782	8.56	8.92	200	3.153	15,765	7.43	.641	4,983	1.49	46,980
	8	Mobile	153	2.047	13,379	8.03	8.43	165	2.717	16,467	5.76	.670	3,088	2.67	72,544
5	1	Chicago	423	3.773	8,920	10.77	11.51	506	6.203	12,259	6.02	2.430	3,339	5.49	340,545
	2	Cleveland	215	1.664	7,740	10.96	11.64	241	2.462	10,216	7.47	.789	2,476	4.17	102,665
	3	Lousiville	279	2.082	11,047	10.17	10.66	319	3.736	11,712	6.98	.654	665	3.68	137,485
	4	Indianapolis	201	1.805	8,980	9.07	9.86	241	2.785	11,556	6.81	.980	2,576	3.05	84,943
	5	Milwaukee	169	1.707	10,101	11.76	12.29	177	2.150	12,147	6.78	.443	2,046	5.51	118,468
	6	Detroit	296	3.080	10,405	9.67	11.36	296	4.058	13,709	5.72	.978	3,304	5.64	228,871
	7	Columbus	204	1.928	9,451	8.55	8.85	159	1.974	12,415	6.66	.046	2,964	2.19	43,231
	8	Cincinnati	208	2.313	11,120	10.18	9.56	199	2.122	10,663	6.62	(.191)	(457)	2.94	62,387
6	1	Kansas City, Mo	419	4.544	10,845	9.33	9.97	604	7.328	12,132	6.59	2.784	1,287	3.38	247,686
	2	Minneapolis-St. Paul	518	5.523	10,662	9.80	10.47	522	6.992	13,395	6.32	1.469	2,733	4.15	290,168
	3	Omaha	214	2.866	13,395	8.66	8.79	284	4.122	14,514	5.90	1.256	1,119	2.89	119,126
	4	St. Louis	251	2.334	9,299	10.11	11.12	311	3.741	12,029	6.46	1.407	2,730	4.66	174,331
	5	Bismarck	217	2.626	12,101	7.71	8.59	252	3.843	15,250	6.79	1.217	3,149	1.80	69,174
	6	McCook	292	1.950	6,676	10.73	11.34	337	3.978	11,804	6.44	2.028	5,128	4.90	194,922

[1] Bureau of Labor Statistics, Cost Price Index.

Fiscal year 1962—Comparative interagency motor pool statistics

Interagency motor pools			Reported by agencies for the survey period (includes additional consolidations from date of determination)				Cost per mile adjusted by BLS-CPI[1] to June 30, 1962	Actual under pool system for fiscal year 1962					Comparison, agencies reported versus pool actual		
Region	Pool	Location	Number of vehicles required	Total miles traveled (millions)	Average miles per vehicle-year	Cost per mile (cents)		Number of vehicle-years	Total miles traveled (millions)	Average miles per vehicle-year	Cost per mile (cents)	Increased miles traveled (millions)	Average miles per vehicle-year increase	Savings per mile (cents)	Total savings
1	1	Boston	326	2.578	7,908	10.00	11.48	344	3.883	11,276	6.78	1.305	3,368	4.70	$182,501
	2	Providence	126	1.087	8,627	11.26	12.05	113	1.088	9,651	7.28	.001	1,024	4.77	51,898
	3	Hartford-Springfield	206	1.682	8,166	11.80	12.74	142	1.491	10,491	7.89	(−.191)	2,325	4.85	72,314
	4	Portland, Maine	156	1.697	10,877	11.97	12.40	113	1.329	11,718	6.95	(−.368)	841	5.45	72,431
2	1	New York City	819	5.561	6,790	12.71	13.78	866	9.060	10,461	8.28	3.499	3,671	5.50	498,300
	2	Philadelphia	372	3.049	8,195	9.26	9.95	409	4.094	10,016	7.82	1.045	1,821	2.13	87,202
	3	Pittsburgh	314	2.394	7,624	14.43	14.46	271	2.627	9,696	9.57	.233	2,072	4.89	128,460
	4	Buffalo	186	1.744	9,376	10.49	10.87	168	1.748	10,398	8.13	.004	1,022	2.74	47,895
	5	Albany	239	2.263	9,467	10.25	9.58	204	2.315	11,339	7.39	.052	1,872	2.19	50,698
	6	Harrisburg	161	1.667	10,352	9.70	10.04	127	1.767	13,867	7.24	.100	3,515	2.80	49,476
3	1	Washington, D.C.	1,032	5.894	5,711	13.89	16.23	1,007	8.266	8,126	11.23	2.372	2,415	5.00	413,300
	2	Baltimore	177	1.630	9,207	11.14	11.47	209	2.229	10,662	8.29	.599	1,455	3.18	70,882
	3	Richmond	131	1.584	12,091	9.83	10.62	123	1.640	13,391	7.71	.056	1,300	2.91	47,724
	4	Norfolk	151	1.259	8,339	11.31	11.07	142	1.373	9,704	7.67	.114	1,365	3.40	46,682
4	1	Atlanta	506	4.840	9,566	7.73	8.17	480	6.168	12,848	6.15	1.328	3,282	2.02	124,594
	2	Nashville	183	2.204	12,046	7.99	8.81	189	2.285	12,094	7.41	.081	48	1.40	31,990
	3	Memphis	283	2.784	9,838	8.66	9.87	293	3.303	11,274	7.82	.519	1,436	2.05	67,712
	4	Raleigh-Durham	223	2.503	11,228	8.65	9.39	197	2.769	14,072	5.92	.266	2,844	3.47	96,084
	5	Tampa-St. Petersburg	182	1.692	9,299	9.65	10.18	210	2.219	10,549	7.40	.527	1,250	2.69	59,691
	6	Miami	177	1.609	9,089	8.64	10.82	200	2.080	10,400	6.88	.471	1,311	3.94	81,952
	7	Jackson-Vicksburg	233	2.512	10,782	8.56	8.80	204	2.767	13,572	6.94	.255	2,790	1.86	51,466
5	1	Chicago	394	3.437	8,724	11.02	12.34	464	5.151	11,111	7.08	1.714	2,387	5.26	270,943
	2	Cleveland	195	1.424	7,301	11.27	12.81	216	2.192	10,170	7.96	.768	2,869	4.85	106,312
	3	Indianapolis	185	1.642	8,875	9.00	10.31	205	2.307	11,259	7.19	.665	2,384	3.12	71,978
	4	Louisville	264	2.900	10,985	10.29	10.91	271	3.402	12,553	6.80	.502	1,568	4.11	139,822
	5	Milwaukee	159	1.576	9,910	12.10	13.15	153	1.879	12,295	6.47	.303	2,355	6.68	125,517
	6	Detroit	277	2.874	10,377	9.12	9.07	277	3.631	13,114	6.28	.757	2,737	2.79	101,305
	7	Columbus	199	1.861	9,352	8.62	8.90	147	1.827	12,428	6.65	(−.034)	3,076	2.25	41,108
	8	Cincinnati	179	1.908	10,660	10.79	10.80	144	1.462	10,186	7.79	(−.446)	(−474)	3.01	44,006

6	1	Kansas City, Mo	405	4.409	10,887	9.33	10.61	543	6.349	11,688	7.06	1.940	801	3.55	225,390
	2	Minneapolis-St. Paul	514	5.483	10,667	9.79	10.88	438	5.495	12,536	6.55	.012	1,869	4.33	237,934
	3	St. Louis	247	2.294	9,286	10.12	11.33	266	3.159	11,896	6.67	.865	2,610	4.66	147,209
	4	Omaha	214	2.866	13,395	8.66	9.40	239	3.413	14,254	6.73	.547	859	2.67	91,127
	5	Bismarck	216	2.617	12,114	7.70	8.38	229	3.347	14,636	6.74	.730	2,522	1.64	54,891
	6	McCook	292	1.950	6,676	10.73	11.26	318	3.200	10,071	6.54	1.250	3,395	4.72	151,040
7	1	Dallas-Fort Worth	701	5.877	8,384	8.19	8.99	994	12.783	12,862	6.31	6.906	4,478	2.68	342,584
	2	New Orleans	277	2.778	10,030	10.33	11.91	302	3.584	11,874	7.23	.806	1,844	4.68	167,731
	3	Houston-Galveston	179	1.449	8,093	8.00	9.82	199	2.233	11,211	7.21	.784	3,118	2.61	58,281
	4	Oklahoma City	267	2.454	9,192	8.27	9.30	292	3.479	11,936	6.29	1.025	2,744	3.01	104,718
	5	Little Rock	187	2.422	12,951	9.70	11.18	219	2.925	13,349	6.83	.503	398	4.35	127,238
	6	San Antonio	253	2.652	10,484	8.54	12.08	267	3.319	12,414	5.59	.667	1,930	6.41	212,748
	7	Baton Rouge	181	1.677	9,266	9.57	9.82	178	2.213	12,433	7.22	.536	3,167	2.60	57,538
8	1	Denver	833	8.002	9,607	7.97	9.77	910	10.687	11,750	8.35	2.685	2,143	1.42	151,755
	2	Albuquerque	546	6.559	12,013	8.01	9.41	629	8.630	13,720	7.54	2.071	1,707	1.87	161,381
	3	Salt Lake City	227	2.266	9,983	7.30	9.03	435	4.986	11,468	8.42	2.720	1,485	.61	30,415
	4	Ogden	269	2.030	7,546	7.76	10.14	301	3.141	10,452	8.01	1.111	2,906	2.13	66,903
	5	Sante Fe	133	1.506	11,323	9.05	10.43	226	3.239	14,359	7.21	1.733	3,036	3.22	104,296
	6	Grand Junction	227	1.650	7,267	12.58	13.86	238	2.419	10,186	9.95	.769	2,917	3.91	94,583
	7	Casper	274	2.806	10,242	10.44	11.02	263	3.084	11,713	9.11	.278	1,471	1.91	58,904
	8	Phoenix	365	3.840	10,521	7.97	9.51	506	6.915	13,668	7.87	3.075	3,174	1.64	113,406
9	1	San Francisco	360	3.495	9,707	11.33	12.54	524	6.374	12,177	7.35	2.879	2,470	5.19	330,811
	2	Los Angeles	888	7.824	8,810	10.68	11.50	963	10.274	10,673	7.80	2.450	1,863	3.70	380,138
	4	Livermore	253	2.143	8,470	10.01	12.42	571	4.291	7,518	9.41	2.148	(−952)	3.01	126,149
	5	Oakland	278	2.183	7,853	8.91	11.04	277	3,528	12,724	7.87	1,345	4,871	3.17	111,838
	6	Sacramento	371	4.361	11,754	7.26	8.48	439	6.251	14,250	6.37	1.890	2,496	2.11	131,896
	7	Reno-Carson City	230	2.075	9,020	9.38	10.34	261	3.091	11,860	8.59	1.016	2,840	1.75	54,092
	8	Honolulu	213	1.330	6,242	14.00	14.26	187	1.283	6,912	9.98	(−.047)	670	4.28	54,913
10	1	Seattle	361	3.375	9,349	10.95	12.73	385	4.259	11,051	7.01	.884	1,702	5.72	243,615
	2	Portland-Vancouver	1,030	9.428	9,153	9.37	11.51	1,004	12.532	12,484	8.14	3.104	3,331	3.37	422,328
	3	Spokane	272	2.964	10,898	12.13	14.05	260	3.276	12,595	7.97	.312	1,697	6.08	199,181
	4	Billings	279	2.955	10,590	10.70	11.85	296	3.964	13,411	8.00	1.009	2,821	3.85	152,614
	5	Boise	322	3.075	9,548	9.80	10.34	277	3.157	11,404	8.21	.082	1,856	2.13	67,244
		Subtotal, 62 pools	19,699	182.650	9,272	9.78	10.78	21,334	249.320	11,687	7.46	66,670	2,415	3.32	8,269,134
		Plus 4 motor pools which operated a portion of fiscal year 1962 for an estimated 1,139,000 miles, at an estimated savings of 2.61 cents per mile													29,728
		Total savings													8,298,862

[1] Bureau of Labor Statistics, Cost Price Index.

NOTE.—Attention is invited to the fact that agencies requirements for vehicle services from the pool have increased 36.5 percent over prior-to-pool requirements. By increasing vehicle utilization 26 percent the motor pool system was able to furnish this increased mileage with 5,556 less vehicles than would have been required by the agencies to travel the same miles prior to pooling.

Estimate fiscal year 1963—Comparative interagency motor pool statistics

Interagency motor pools			Reported by agencies for the survey period (includes additional consolidations from date of determination)				Cost per mile adjusted by BLS-CPI [1] to Dec. 31, 1962	Actual under pool system for 1st half, fiscal year 1963 projected for 1 year				Comparison agencies reported versus pool actual			
Region	Pool	Location	Number of vehicles required	Total miles traveled (millions)	Average miles per vehicle-year	Cost per mile (cents)		Number of vehicle years	Total miles traveled (millions)	Average miles per vehicle-year	Cost per mile (cents)	Increased miles traveled (millions)	Average miles per vehicle-year increase	Savings per mile (cents)	Total savings (dollars)
7	1	Dallas-Fort Worth	635	5.471	8,616	8.28	9.10	934	11.069	11,851	6.61	5.598	3,235	2.49	$275,618
	2	New Orleans	280	2.812	10,043	10.31	11.20	304	3.447	11,339	6.98	.635	1,296	4.22	145,463
	3	Houston-Galveston	181	1,476	8,155	7.99	9.11	217	2.287	10,539	7.36	.811	2,384	1.75	40,023
	4	Oklahoma City	268	2.464	9,194	8.28	9.03	307	3.655	11,906	6.54	1.191	2,712	2.49	91,010
	5	Little Rock	187	2.422	12,951	9.70	10.99	237	3.149	13,287	6.71	.727	336	4.28	134,777
	6	San Antonio	265	2.755	10,396	8.64	11.38	295	3.371	11,427	5.30	.616	1,031	6.08	204,957
	7	Baton Rouge	181	1.677	9,266	9.57	9.82	177	2.229	12,593	7.34	.552	3,327	2.48	55,279
8	1	Denver	838	8.052	9,609	7.98	9.82	938	12.915	13,769	7.90	4.863	4,160	1.92	160,146
	2	Albuquerque	585	6.776	11,583	7.80	8.95	663	9.171	13,833	7.56	2.395	2,250	1.39	127,477
	3	Salt Lake City	229	2.286	9,983	7.32	9.10	534	6.630	12,416	8.23	4.344	2,433	.87	57,681
	4	Ogden	292	2.216	7,589	8.48	10.07	340	4.101	12,062	7.64	1.885	4,473	2.43	99,654
	5	Santa Fe	133	1.506	11,323	9.05	9.85	246	3.742	15,211	7.35	2.236	3,888	2.47	92,427
	6	Grand Junction	227	1.650	7,267	12.58	13.27	261	2.923	11,199	9.53	1.273	3,932	3.74	109,320
	7	Casper	274	2.806	10,242	10.44	11.04	296	3.908	13,203	8.32	1.102	2,961	2.72	106,298
	8	Phoenix	260	2.778	10,685	7.85	9.26	454	5.984	13,181	7.36	3.206	2,496	1.90	113,696
	9	Tucson	280	2.905	10,375	8.78	9.17	225	3.128	13,902	7.98	.223	3,527	1.19	37,223
9	1	San Francisco	371	3.605	9,717	11.28	11.82	608	7.127	11,722	7.43	3.522	2,005	4.39	312,875
	2	Los Angeles	956	8.304	8,686	10.78	10.97	1,148	11.806	10,284	7.61	3.502	1,598	3.36	396,682
	4	Livermore	253	2.1 3	8,470	10.01	11.78	622	4.463	7,175	9.01	2.320	(1,295)	2.77	123,625
	5	Oakland	280	2.203	7,868	8.92	10.39	291	3.576	12,289	6.85	1.373	4,421	3.54	126,590
	6	Sacramento	372	4.371	11,750	7.26	7.84	480	6.567	13,681	6.20	2.196	1,931	1.64	107,699
	7	Reno-Carson City	241	2.199	9,124	9.34	11.30	361	4.383	12,141	9.84	2.184	3,017	1.46	63,992
	8	Honolulu	217	1.357	6,253	13.95	14.06	229	1.571	6,860	9.37	.214	607	4.69	73,680
10	1	Seattle	363	3.395	9,353	10.94	12.32	436	5.172	11,862	7.80	1.777	2,509	4.52	233,774
	2	Portland-Vancouver	1,032	9.448	9,155	9.38	11.02	1,097	14.848	13,535	7.55	5.400	4,380	3.47	515,226
	3	Spokane	273	2.974	10,894	12.13	13.67	265	3.756	14,174	7.60	.782	3,280	6.07	227,989
	4	Billings	281	2.975	10,587	10.70	11.42	354	5.286	14,932	7.51	2.311	4,345	3.91	206,683
	5	Boise	322	3.075	9,548	9.80	9.89	355	4.381	12,341	7.37	1.306	2,793	2.52	110,401
	6	Anchorage	258	1.247	4,833	24.30	25.46	205	1,415	6,902	14.59	.168	2,069	10.87	153,811
		Subtotal, 66 pools	21,066	194.894	9,278	10.07	10.66	24,462	291.653	11,923	7.43	96.759	2,645	3.23	9,421,888
		Plus 1 motor pool operating a portion of the year for an estimated 1.891 million miles, at an estimated savings of 1.99 cents per mile													37,631
		Total estimated savings													9,459,519

[1] Bureau of Labor Statics, Consumer Price Index.

NOTE.—Attention is invited to the fact that agencies requirements for vehicle services from the pool have increased 49.6 percent over prior-to-pool requirements. By increasing utilization 28.5 percent the motor pool system was able to furnish this increased mileage with 6,973 less vehicles than would have been required by the agencies to travel the same miles prior to pooling.

ESTIMATE OF PROJECTS TO BE FINANCED BY ARA AND FUNDS OF OTHER AGENCIES

Mr. BOUTIN. I did not fully answer your question, Mr. Congressman. This week, we had GSA testify also before the Public Works Committee of the House asking for authorization for 86 projects that would be submitted, if approved by the Congress, to ARA for the purposes of funding.

Mr. JONAS. What I would like to have is a delineation between funding made in our bill and repairs and new building construction that is financed out of ARA funds.

Mr. BOUTIN. We will give you a complete breakdown of funding by source so that you will have a complete picture.

What we have now, by the way, under ARA transferred from the Post Office is very small.

(The information supplied follows:)

Small public building construction projects being considered for funding under the accelerated public works program, ARA (submitted to the Public Works Committees on Feb. 11, 1963, for approval)

Project	Estimated cost
Alabama:	
Centre, FOB	$217,600
Vernon, PO, FOB	242,900
Arkansas:	
McCrory, PO, FOB	153,000
Marshall, PO, FOB	293,600
Mountain Home, PO, FOB	296,700
California:	
Del Mar, PO, FOB	382,700
Solana Beach, PO, FOB	284,700
Florida:	
Fort Lauderdale: Oakland Park branch, PO, FOB	231,400
Miami: Gratigny branch, PO, FOB	298,800
Georgia: Warm Springs, PO, FOB	116,500
Idaho: St. Maries, PO, FOB	318,400
Illinois:	
Arthur, PO, FOB	202,000
Red Bud, PO, FOB	174,900
Indiana:	
Scottsburg, PO, FOB	322,100
Shoals, PO, FOB	177,200
Kentucky:	
Clinton, PO, FOB	310,300
Cumberland, PO, FOB	158,800
Richmond, FOB	273,900
Russell Springs, PO, FOB	164,700
Louisiana:	
Gueydan, PO, FOB	159,500
Mamou, PO, FOB	123,600
Mansura, PO, FOB	146,700
Oberlin, PO, FOB	155,100
Maine:	
Calais, PO, FOB	369,400
Lubec, PO, FOB	181,700
Machias, PO, FOB	317,300
Maryland: North East, PO, FOB	218,100
Michigan:	
Lawton, PO, FOB	139,500
Mancelona, PO, FOB	174,300
Minnesota: Baudette, PO, FOB	275,500
Mississippi:	
Bay Springs, PO, FOB	224,900
Coldwater, PO, FOB	128,600
Port Gibson, PO, FOB	219,400
Richton, PO, FOB	125,300
Missouri:	
Branson, PO, FOB	245,000
Cabool, PO, FOB	190,300
Nebraska:	
Fullerton, PO, FOB	283,700
Gothenburg, PO, FOB	252,800
New York: Keeseville, PO, FOB	170,600
North Carolina:	
Andrews, PO, FOB	157,400
Kinston, FOB	253,300
Mars Hill, PO, FOB	153,400
North Carolina—Continued	
Raeford, PO, FOB	$320,100
Rich Square, PO, FOB	136,200
Windsor, PO, FOB	225,400
Ohio:	
Ashtabula, FOB	291,400
Hillsboro, PO, FOB	457,400
Malta, PO, FOB	179,600
Oklahoma:	
Afton, PO, FOB	186,400
Jay, PO, FOB	259,000
Wilburton, PO, FOB	311,400
Oregon: Scrappoose, PO, FOB	216,000
Pennsylvania:	
Berwick, PO, FOB	417,200
Brookville, PO, FOB	261,200
Duncannon, PO, FOB	161,300
Falls Creek, PO, FOB	166,700
Galeton, PO, FOB	194,000
Hawley, PO, FOB	252,900
Montrose, PO, FOB	257,200
New Bethlehem, PO, FOB	241,200
Pittsburgh:	
Cedarburst Branch, PO, FOB	349,500
Green Tree Branch, PO, FOB	349,500
Pleasant Hills Branch, PO, FOB	343,500
Youngsville, PO, FOB	173,500
Puerto Rico: Humacao, PO, FOB	292,400
Rhode Island: Providence: Olneyville Station, PO, FOB	347,800
South Carolina:	
Elloree, PO, FOB	133,300
Ridgeland, PO, FOB	337,500
Williston, PO, FOB	146,800
Tennessee: Oneida, PO, FOB	198,200
Texas:	
Buffalo, PO, FOB	154,100
Carthage, PO, FOB	374,000
Fairfield, PO, FOB	251,600
Gonzales, PO, FOB	365,000
Naples, PO, FOB	182,400
Utah: Heber, PO, FOB	277,500
Washington:	
Cle Elum, PO, FOB	201,900
Newport, PO, FOB	234,500
West Virginia:	
Gassaway, PO, FOB	203,000
Glenville, PO, FOB	253,500
Parsons, PO, FOB	279,400
Pineville, PO, FOB	252,500
Summersville, PO, FOB	343,000
White Sulphur Springs, PO, FOB	236,000
Wisconsin:	
Eagle River, PO, FOB	278,900
Elroy, PO, FOB	164,300
Total, 86 projects	20,543,800

Repair and improvement projects submitted to Area Redevelopment Administration for allocation of funds directly to GSA under accelerated public works program, ARA

Project	Estimated cost
Alabama:	
Birmingham, PO, CT	$90,000
Eutaw, PO	13,000
Gadsen, PO	18,000
Jasper, PO, CT	20,000
Prattville, PO	16,000
Alaska:	
Nome, PO, CT	35,000
Sitka, PO, CT	15,000
Arkansas: McGehee, PO	4,000
California:	
Eureka, PO, CT	15,000
Fresno, PO, CT	22,000
Modesto, PO	15,000
San Diego, CT	34,000
San Diego, PO	33,000
Stockton, PO	53,000
Connecticut: Ansonia, PO	15,000
Georgia:	
Dawson, PO	12,000
Jesup, PO	38,000
Monroe, PO	14,000
Sylvania, PO	22,000
Idaho:	
Coeur D'Alene, PO, CT	43,000
Eastport, BS	22,000
Illinois: Danville, PO, CT	28,000
Indiana:	
Evansville, PO, CT, CU	30,000
Jeffersonville, Depot	105,000
Kentucky:	
Bowling Green, PO, CT	280,000
Elizabethtown, Fort Knox Bullion Depot	67,000
Louisiana:	
Natchitoches, PO	50,000
Monroe, PO, CT	15,000
Massachusetts:	
Falls River, PO, CU	34,000
Holyoke, PO	14,000
Michigan:	
Hart, PO	11,000
Houghton, PO	7,000
Ironwood, PO	14,000
Minnesota:	
Duluth, PO, CT	30,000
International Falls, PO	17,000
Mississippi:	
Bay St. Louis, PO	14,000
Vicksburg, PO, CT	21,000
Missouri:	
Caruthersville, PO	20,000
Farmington, PO	13,000
Trenton, PO	14,000
Nebraska:	
Broken Bow, PO	$20,000
Lexington, PO	20,000
New Jersey:	
New Brunswick, PO	24,000
New Brunswick-Belle Mead GSA Depot	12,000
New Mexico: Gallup, PO	128,000
New York:	
Buffalo, CT	92,000
Elmira, PO, CT	10,000
Schenectady, PO	22,000
Scotia, GSA Depot	191,000
North Carolina:	
Durham, USO	11,000
Franklin, PO	27,000
Hamlet, PO	12,000
Lincolnton, PO	38,000
Rockingham, PO, CT	78,000
Whiteville, PO	11,000
Oklahoma: Ada, PO, CT	126,000
Pennsylvania:	
Erie, CT	32,000
Erie, PO	25,000
Warren, PO	14,000
South Carolina:	
Bishopville, PO	23,000
Chesterfield, PO	17,000
Tennessee: Kingsport, PO	15,000
Texas:	
Gilmer, PO	10,000
Linden, PO	14,000
Washington:	
Bellingham, PO	190,000
Laurier, BS	18,000
Oroville, BS	31,000
Sunnyside, PO	17,000
Yakima, PO, CT	47,000
West Virginia:	
Elkins, FSB	50,000
Grafton, PO	40,000
Huntington, PO, CT	40,000
Parkersburg, Dils Bldg	38,000
Wheeling, PO, CT	45,000
Wisconsin: Sturgeon Bay, PO	3,000
Total, 75 projects	2,824,000
Contingencies	176,000
Total	3,000,000

Post office modernization projects funded under the accelerated public works program, ARA, and transferred from Post Office Department to General Services Administration

Project	Estimated cost
Arkansas: McGehee, PO	$220,000
Georgia:	
Jesup, PO	294,000
Sylvania, PO	203,000
Hawaii: Hilo, PO, CT	53,000
Michigan:	
Houghton, PO	345,000
Ironwood, PO	132,000
Nebraska:	
Broken Bow, PO	300,000
Lexington, PO	190,000
North Carolina: Lincolnton, PO	$295,000
Oklahoma: Ada, PO, CT	225,000
Texas:	
Gilmer, PO	127,000
Linden, PO	59,000
Wisconsin: Sturgeon Bay, PO	240,000
Total projects	2,683,000
Contingencies	267,000
Total, 13 projects	2,950,000

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KANSAS STATE UNIVERSITY LIBRARY OCT 7 1963 MANHATTAN, KANSAS

Projects to be undertaken by GSA in fiscal year 1963, for other departments and agencies to be financed by appropriation transfer

	Estimated cost
Department of Health, Education, and Welfare (total)	$45,952,109
Food and Drug Administration: Beltsville, Md.: Construction, animal laboratory building	1,730,000
Gallaudet College, Washington, D.C. (total)	1,323,200
Landscaping the campus	50,000
Renovation and repair, existing buildings (residences 2, 3, and 7, and relocation Health Center)	100,000
Equipping, classroom and laboratory building	45,000
Construction, Art Center	656,700
Construction and equipping, addition to Speech and Hearing Center	271,500
Construction, 2 preparatory dormitories	200,000
Howard University, Washington, D.C. (total)	4,708,509
Completion of construction and equipping, physical education building for men	311,709
Modernization, power plant facilities (additional funds)	600,000
Construction, women's dormitory No. 7	2,000,000
Construction, classroom building No. 2	1,796,800
Public Health Service (total)	30,158,400
Mobile, Ala.: Construction, shellfish laboratory (additional funds)	10,000
College, Alaska: Design, regional water pollution control laboratory	190,000
Athens, Ga.: Design and construction, water pollution control laboratory, PHS	2,380,000
Lawrenceville, Ga.: Construction, animal holding and breeding facilities, CDC	2,086,000
Atlanta, Ga.: Construction, communicable disease center	9,914,000
Baltimore, Md.: Planning for gerontology research facility, NIH	565,000
Bethesda, Md.:	
Design, mental-neurology research facilities, NIH (additional funds)	24,000
Design, National Cancer Institute, NIH (additional funds)	48,000
Design, extension to Biologics Standards Building, NIH	350,000
Design, general office building extension, NIH	350,000
Construction, National Library of Medicine, NIH (additional funds)	233,000
Design, master utilities extension, NIH	448,000
Poolesville, Md.: Construction, animal farm facilities, NIH	4,869,000
Hamilton, Mont.: Construction, Rocky Mountain laboratory (additional funds)	10,400
Ada, Okla.: Construction, Water Pollution Control Laboratory	2,000,000
Corvallis, Oreg.: Construction, Water Pollution Control Laboratory	2,000,000
Puerto Rico: Design, National Institutes of Health Perinatal Laboratory	60,000
Kingston, R.I.: Design and construction, Northeast Marine Water Quality Laboratory	1,715,000
Providence, R.I.:	
Construction, Shellfish Laboratory (additional funds)	20,000
Design, Middle Atlantic Water Pollution Control Laboratory	180,000
Design, Midwest Water Pollution Control Laboratory	240,000
Design, Northeast Regional Water Pollution Control Laboratory	220,000
Design, construction, Midwest Fresh Water Quality Laboratory	2,246,000
St. Elizabeths Hospital, Washington, D.C. (total)	8,032,000
Extension and modernization of administration building (additional funds)	37,000
Construction and equipment, treatment building (Rehabilitation Center)	6,735,000
Replacement of 4 oil-fired burners, hospital building	350,000
Installation, sprinkler system in hospital building	865,000
Engineering study, plumbing and related facilities	45,000
Department of Agriculture (total)	4,405,800
Agricultural Research Service (total)	2,913,300
Twin Falls, Idaho: Construction, research facilities	778,200
State College, Miss.: Construction, research facilities	373,000
Fargo, N. Dak.: Construction, research facilities	1,762,100
Forest Service (total)	1,492,500
Tempe, Ariz.: Design and construction, Research Laboratory	425,000
Alexandria, La.: Design and construction, Research Laboratory-office building	517,500
Warren, Pa.: Design and Construction, Research Laboratory	250,000
Logan, Utah: Design and construction, Research Laboratory Building	300,000
Department of Commerce (total)	38,774,234
National Bureau of Standards:	
Boulder, Colo.:	
Design and construction, Plasma Physics Laboratory Building, NBS	695,000
Design, Radio Standards Laboratory Building, NBS	690,000
Gaithersburg, Md.: Construction, nuclear reactor facility	5,156,034
Montgomery County, Md.: Design and construction, facilities, NBS	32,233,200

Projects to be undertaken by GSA in fiscal year 1963, for other departments and agencies to be financed by appropriation transfer—Continued

	Estimated cost
Department of Interior (total)	$60,000
Geological Survey: Denver, Colo.:	
Design, Nuclear Science Building, Denver Federal Center	60,000
Department of Labor (total)	95,000
Washington, D.C.:	
Supervision and related costs incident to construction of Employment Security Building	95,000
Department of State (total)	515,000
Washington, D.C.:	
Extension and remodeling, State Department Building (additional funds)	515,000
Treasury Department (total)	300,000
Bureau of Engraving and Printing:	
Design, airconditioning, Bureau of Engraving and Printing buildings	300,000
Smithsonian Institution, Washington, D.C. (total)	7,699,000
Construction, Museum of History and Technology (additional funds)	2,013,000
Construction, west wing to Natural History Building	5,236,000
Design and modernization of exhibits	280,000
Rehabilitation, existing buildings	130,000
Remodeling, Civil Service Commission Building	40,000
Library of Congress (total)	1,100,000
Space alterations, Naval Weapons Plant	1,100,000
Subtotal—60 projects	98,901,143
ADDITIONAL TRANSFER ACCOUNT PROJECTS DEVELOPED SINCE PREPARATION OF CONGRESSIONAL JUSTIFICATION	
Department of Health, Education, and Welfare (total)	55,000
St. Elizabeths Hospital, Washington, D.C.:	
Rewiring and extension, electrical facilities in hospital buildings	20,000
Renovation Hitchcock Hall (including airconditioning) (additional funds)	35,000
Department of Commerce (total)	7,078,000
Design and construction, U.S. pavilion, New York World's Fair	7,060,000
National Bureau of Standards: Table Mesa, Colo.:	
Land Acquaition for Radio Propagation Field Sites	18,000
Department of Interior (total)	25,000
Bureau of Mines: Fort Detrick, Md.:	
Design, Research Center facilities	25,000
D.C. government (total)	10,300
Potomac interceptor (land acquisition and rights-of-way) (additional funds)	10,300
Federal Aviation Agency (total)	550,000
Virginia, Chantilly, Va.: Land acquisition, access roads, Dulles International Airport	550,000
Government Printing Office (total)	5,933,000
Washington, D.C.:	
Design and construction, annex building No. 5, Government Printing Office	5,933,000
Subtotal—8 projects	13,651,300
Grand total—68 projects	112,552,443

Repair, alteration, and improvement projects scheduled in fiscal year 1963 for other departments and agencies reimbursable under the buildings management fund

Project	Agency	Estimated cost
Alabama:		
Birmingham, Social Security Bldg.	DHEW	$89,100
Carrollton, PO	POD	20,700
Enterprise, PO	POD	30,000
Eutaw, PO	POD	33,000
Fayette, PO	POD	32,000
Florence, PO, CT	POD	367,800
Greensboro, PO	POD	33,000
Monroeville, PO	POD	26,700
Montevallo, PO	POD	32,000
Opp, PO	POD	52,000
Piedmont, PO	POD	24,900
Prattville, PO	POD	25,800
Roanoke, PO	POD	31,000
Scottsboro, PO	POD	155,700
Sheffield, PO	POD	107,900
Tuscumbia, PO	POD	32,800
Wetumpka, PO	POD	10,000
Alaska: Sitka, PO, CT	POD	164,270
Arizona:		
Douglas, PO	POD	45,000
Nogales, PO	POD	174,825
Prescott, PO	POD	11,930
Winslow, PO	POD	157,500
Arkansas:		
Berryville, PO	POD	21,200
Clarendon, PO	POD	44,200
DeQueen, PO	POD	24,000
Fordyce, PO	POD	22,000
Heber Springs, PO	POD	107,300
Lake Village, PO	POD	25,200
Little Rock, FOB	DOD	20,690
Monticello, PO	POD	107,300
Morrilton, PO	POD	104,100
Nashville, PO	POD	21,400
Newport, PO	POD	37,700
Paragould, PO	POD	411,624
Paris, PO	POD	21,500
Pocahontas, PO	POD	25,300
Prescott, PO	POD	20,900
Siloam Springs, PO	POD	137,800
Walnut Ridge, PO	POD	26,300
Warren, PO	POD	31,100
California:		
Alameda, PO	DOT, OCD	123,800
Auburn, PO	POD	308,200
Canoga Park, PO	POD	59,500
Colton, PO	POD	36,400
Grass Valley, PO	POD	59,500
Hollister, PO	POD	47,600
Huntington Park, PO	POD	150,000
Pacific Grove, PO	POD	220,525
Petaluma, PO	POD	90,100
Porterville, PO	POD	410,600
Redding, PO	POD	809,500
Reedley, PO	POD	25,700
Roseville, PO	POD	365,000
San Pedro, PO	POD	11,420
Santa Cruz, PO	POD	760,000
Santa Rosa, OCD	DOD, OCD	20,625
Tracy, PO	POD	325,000
Ventura, PO	POD	715,000
Woodland, PO	POD	342,400
Colorado:		
Colorado Springs, PO, CT	POD	113,535
Denver, 3800 York St	Air Force	187,604
Denver, DFC	Fish and Wildlife Service	13,500
Denver, DFC Bldgs. 13 and 14	do	130,530
Denver, DFC Bldg. 20	Geological Survey	64,900
Denver, DFC Bldg. 26	VA	10,093
Denver, DFC Bldg. 29	Bureau of Mines	45,219
Denver, DFC Bldg. 21	Geological Survey	20,350
Denver, DFC Bldg. 25	do	33,537
Denver, DFC Bldg. 50	OCD, DOD	24,950
Denver, DFC Bldg. 56	POD	26,307
Denver, South Denver station, PO	POD	101,000
La Junta, PO	POD	57,000
Montrose, PO	POD	90,000
Pueblo, PO	DOD	11,395
Rocky Ford, PO	POD	36,900
Sterlinz, PO, CT	POD	221,000
Trinidad, PO	POD	55,800
Walsenburg, PO	POD	45,900

Repair, alteration, and improvement projects scheduled in fiscal year 1963 for other departments and agencies reimbursable under the buildings management fund—Con.

Project	Agency	Estimated cost
Connecticut:		
Bridgeport, PO	POD	$526,000
Hartford, East Hartford branch, PO	POD	382,000
Milford, PO	POD	95,000
New Haven, West Haven branch, PO	POD	54,000
Norwich, PO	POD	12,648
Southington, PO	POD	215,000
South Norwalk, PO	POD	11,500
Thompsonville, PO	POD	332,000
Waterbury, PO	POD	1,085,000
Winsted, PO	POD	320,000
District of Columbia:		
ICA	ICA	30,000
ICC-Labor	Labor	150,000
Justice	FBI	63,539
Labor	Labor	85,455
Normandy Bldg	HHFA	18,000
PO (new)	POD	140,670
PO (old)	POD	400,000
State	State	52,133
Steam tunnel	District of Columbia government.	224,887
1951 Constitution Ave	National Science Foundation.	20,070
615 Pennsylvania Ave. NW	Weather	15,000
1776 Pennsylvania Ave. NW	USIA	12,000
501 26th St. NW	District of Columbia government.	41,400
Florida:		
DeFuniak Springs, PO	POD	25,300
Jasper, AG, PO	POD	24,800
Kissimmee, PO	POD	180,100
Live Oak, PO	POD	36,300
Miami, PO, CT, CU	POD	18,800
Ocala, FOB	DOD, OCD	11,100
Tampa, PO, CT	POD	10,000
Georgia:		
Barnesville, PO	POD	42,400
Baxley, PO	POD	31,400
Camilla, PO	POD	26,800
Cedartown, PO	POD	300,000
Commerce, PO	POD	48,600
Covington, PO	POD	32,300
Eastman, PO	POD	31,450
Eatonton, PO	POD	35,900
Elberton, PO	POD	217,400
Fort Valley, PO	POD	26,000
Hartwell, PO	POD	163,700
Jackson, AG, PO	POD	26,000
Madison, PO	POD	56,900
Manchester, PO	POD	31,400
Monroe, PO	POD	29,100
Montezuma, PO	POD	32,500
Pelham, PO	POD	32,100
Savannah, CU	POD	11,200
Sylvester, PO	POD	31,300
Thomasville, OCD	DOD, OCD	24,950
West Point, PO	POD	25,300
Idaho:		
Caldwell, PO	POD	479,200
Grangeville, PO	POD	10,000
Payette, PO	POD	200,000
Illinois:		
Chicago, stockyards, PS	Agriculture	34,800
Chicago, stockyards, PS	POD	185,850
Chicago, midwest, PS	POD	178,918
Chicago, Morgan Park, PS	POD	10,636
Chicago, PO garage	POD	32,500
Chicago, Hawthorne, PS	POD	14,794
East St. Louis, PO, CT	POD	446,300
Fairfield, PO	POD	11,000
Greenville, PO	POD	127,100
Jerseyville, PO	POD	105,100
Lawrenceville, PO	POD	52,550
Marion, PO	POD	43,600
Quincy, PO, CT	POD	10,607
Urbana, PO	POD	77,800

Repair, alteration, and improvement projects scheduled in fiscal year 1963 for other departments and agencies reimbursable under the buildings management fund—Con.

Project	Agency	Estimated cost
Indiana:		
Bedford, PO	POD	$14,790
Clinton, PO	POD	160,000
Connersville, PO	POD	22,330
Delphi, PO	POD	47,675
East Chicago, PO	POD	10,200
French Lick, PO	POD	58,375
Greencastle, PO	POD	52,900
Kokomo, PO	POD	500,000
Monticello, PO	POD	199,100
Mount Vernon, PO	POD	56,375
Noblesville, PO	POD	210,000
Princeton, PO	POD	31,800
Wabash, PO	POD	45,400
Kansas:		
Belleville, PO	POD	210,000
Council Grove, PO	POD	25,800
Dodge City, PO	POD	312,580
Goodland, PO	POD	36,800
Halstead, PO	POD	43,600
Hays, PO	POD	398,600
Neodesha, PO	POD	41,200
Kentucky:		
Franklin, PO	POD	34,100
Hardinsburg, PO	POD	31,900
Jackson, PO, CT	POD	58,900
Louisville, PO, CT	POD	16,000
Louisiana:		
Abbeville, PO	POD	161,500
Covington, PO	POD	26,500
DeRidder, PO	POD	31,700
Donaldsonville, PO	POD	21,500
Franklin, PO	POD	28,100
Gretna, PO	POD	232,542
Jeanerette, PO	POD	21,200
Lake Providence, PO	POD	22,700
Morgan City, PO	POD	33,900
St. Martinville, PO	POD	17,600
Winnfield, PO	POD	21,800
Maine: Camden, PO	POD	15,410
Maryland:		
Aberdeen, PO	POD	310,000
Baltimore, Social Security Bldg	DHEW	43,285
Cambridge, PO	POD	457,500
Catonsville, OASI Bldg	DHEW	10,121
Elkton, PO	POD	402,000
Frederick, PO	POD	497,300
Laurel, PO	POD	535,000
Olney, OCD Bldg	OCD	24,500
St. Marys City, PO	POD	10,000
Suitland, FOB No. 3	Commerce	433,666
Suitland, FOB No. 4	Weather	181,600
Massachusetts:		
Adams, PO	POD	15,000
Boston, Brookline branch PO	POD	45,851
Boston, Cambridge branch PO	POD	16,000
Boston, Somerville branch PO	POD	11,874
Boston, Stoneham branch PO	POD	18,500
Boston, PO garage	POD	32,500
Boston, South postal annex	POD	495,000
Brockton, PO	POD	1,595,000
Gloucester, PO	POD	31,000
Leominster, PO	POD	466,000
Michigan:		
Cadillac, PO	POD	11,000
Cheboygan, PO	POD	18,640
Crystal Falls, PO	POD	11,000
Hancock, PO	POD	15,394
Ionia, PO	POD	12,240
Iron Mountain, PO	POD	10,135
Ludington, PO	POD	220,000
Traverse City, PO	POD	396,600
Wayne, PO	POD	755,700
Minnesota:		
Faribault, PO	POD	422,000
St. Paul, White Bear Lake branch PO	POD	156,300

Repair, alteration, and improvement projects scheduled in fiscal year 1963 for other departments and agencies reimbursable under the buildings management fund—Con.

Project	Agency	Estimated cost
Mississippi:		
Columbus, PO	POD	$65,100
Durant, PO	POD	35,400
Eupora, PO	POD	30,200
Forest, PO	POD	24,400
Grenada, PO	POD	299,100
Hazlehurst, PO	POD	20,400
Lumberton, PO	POD	32,100
Magnolia, PO	POD	28,800
Natchez, PO	POD	37,700
Okolona, AG PO	POD	27,100
Picayune, PO	POD	145,100
Tylertown, PO	POD	22,900
Vicksburg, PO, CT	DOD, Department of Army	37,600
Waynesboro, PO	POD	29,100
Missouri:		
Bonne Terre, PO	POD	36,700
Boonville, PO	POD	280,000
Bowling Green, PO	POD	25,400
Caruthersville, PO	POD	51,600
Centralia, PO	POD	54,700
Dexter, PO	POD	34,200
Eldon, PO	POD	49,300
Fredericktown, PO	POD	44,300
Kansas City, NIRP	IRS	13,550
Marshall, PO	POD	267,000
Mount Vernon, PO	POD	31,200
St. Joseph, PO, CT	POD	890,000
Montana:		
Dillon, PO	POD	209,000
Hamilton, PO	POD	11,300
Nebraska:		
David City, PO	POD	48,400
Omaha, Benson PO station	POD	309,700
Omaha, FOB	IRS	22,779
Schuyler, PO	POD	33,200
Tecumseh, PO	POD	40,600
Wahoo, PO	POD	169,000
Nevada:		
Elko, PO	POD	60,800
Ely, PO	POD	50,800
Reno, PO	POD	115,950
New Hampshire:		
Exeter, PO	POD	287,000
Laconia, PO	POD	310,000
New Jersey:		
Haddonfield, PO	POD	49,500
Lakewood, PO	POD	356,800
Mount Holly, PO	POD	189,000
Newark, PO, CT	POD	11,000
Riverside, PO	POD	240,000
Somerville, PO	POD	625,000
Summit, PO	POD	756,000
New Mexico:		
Deming, PO	POD	139,500
Las Vegas, PO, CT	POD	10,340
Portales, PO	POD	180,000
Santa Fe, CT	DOD	13,707
Truth or Consequences, PO	POD	20,570
New York:		
Flushing, PO	POD	357,201
Flushing, Forest Hills station, PO	POD	412,200
Garden City, PO	POD	159,400
Johnstown, PO	POD	311,700
Malone, PO	POD	342,228
Mineola, PO	POD	104,400
New York, Mott Haven station, PO	POD	129,700
Northport, PO	POD	274,000
Nyack, PO	POD	106,500
Potsdam, PO	POD	18,813
Riverhead, PO	POD	297,700
North Carolina:		
Asheville, PO, CT	DOD, OCD	28,500
Graham, PO	POD	39,800
Hamlet, PO	POD	41,800
Kings Mountain, PO	POD	26,200
Laurinburg, PO	POD	39,300
Madison, PO	POD	67,700
New Bern, PO, CT	POD	67,200

Repair, alteration, and improvement projects scheduled in fiscal year 1963 for other departments and agencies reimbursable under the buildings management fund—Continued

Project	Agency	Estimated cost
Ohio:		
Bedford, PO	POD	$246,000
Cleveland, East Cleveland branch, PO	POD	11,300
Girard, PO	POD	199,600
Maumee, PO	POD	154,600
Perrysburg, PO	POD	187,600
Piqua, PO	POD	92,300
Sandusky, PO	POD	11,400
Struthers, PO	POD	104,350
Sylvania, PO	POD	196,800
Oklahoma:		
Blackwell, PO	POD	31,800
Coalgate, PO	POD	24,600
Eufaula, PO	POD	23,900
Frederick, PO	POD	174,600
Holdenville, PO	POD	27,800
Hollis, PO	POD	28,000
Mangum, PO	POD	36,200
Marietta, PO	POD	65,000
Marlow, PO	POD	25,300
Nowata, PO	POD	23,200
Okemah, PO	POD	28,200
Pawhuska, PO	POD	28,700
Purcell, PO	POD	21,900
Stilwell, PO	POD	22,200
Sulphur, PO	POD	27,600
Tahlequah, PO	POD	28,200
Tulsa, PO, CT	POD	35,000
Watonga, PO	POD	28,000
Waurika, PO	POD	22,000
Oregon:		
Coos Bay, PO	POD	11,900
McMinnville, PO	POD	10,140
Pennsylvania:		
Ephrata, PO	POD	352,500
Middletown, PO	POD	266,000
Philadelphia, 128 North Broad St	VA	29,122
Philadelphia, Penn A.C	Army	10,000
Pottsville, PO	POD	19,000
Wayne, PO	POD	42,680
Wilkes-Barre, PO	POD	118,000
Wilkes-Barre, VA	VA	115,500
South Carolina:		
Bamberg, PO	POD	26,500
Beaufort, PO	POD	33,800
Bishopville, PO	POD	31,100
Camden, PO	POD	42,600
Chesterfield, AG, PO	POD	41,300
Conway, PO	POD	42,600
Easley, PO	POD	33,800
Gaffney, PO	POD	174,100
Lancaster, PO	POD	189,800
Marion, PO	POD	60,000
Summerville, PO	POD	200,700
Winsboro, PO	POD	35,600
York, PO	POD	33,300
South Dakota: Belle Fourche, PO	POD	210,000
Tennessee:		
Cookeville, PO, CT	POD	212,500
Fayetteville, PO	POD	204,800
Livingston, PO	POD	186,500
Waverly, PO	POD	23,700
Texas:		
Austin, Lowich Bldg	IRS	21,625
Bay City, PO	POD	42,800
Baytown, PO, station A	POD	31,000
Belton, PO	POD	39,000
Bonham, PO	POD	162,700
Caldwell, PO	POD	35,700
Cameron, PO	POD	25,400
Commerce, PO	POD	31,200
Dallas, PO, CT	POD	12,000
El Campo, PO	POD	178,400
Elgin, PO	POD	25,600
Ennis, PO	POD	197,500
Fredericksburg, PO	POD	31,400
Hearne, PO	POD	26,000

Repair, alteration, and improvement projects scheduled in fiscal year 1963 for other departments and agencies reimbursable under the buildings management fund—Continued

Project	Agency	Estimated cost
Texas—Continued		
Houston, PP station	POD	$400,000
Houston, Koupa Reader	POD	50,000
Kenedy, PO	POD	26,200
Kerrville, PO	POD	243,000
Kingsville, PO	POD	287,000
Laredo, Fort McIntosh	INS	16,350
Liberty, PO	POD	25,800
Lockhart, PO	POD	26,600
Mission, PO	POD	30,000
Navasota, PO	POD	27,500
New Braunfels, PO	POD	48,900
Pampa, PO, CT	POD	85,000
Paris, PO	POD	240,200
Plainview, PO	POD	211,700
Robstown, PO	POD	26,200
Rockdale, PO	POD	25,600
Seymour, PO	POD	31,800
Sweetwater, PO	POD	43,400
Waco, PO, CT	DOD	20,765
Waco, St. Basil Bldg	USAF	25,000
Wharton, PO	POD	34,400
Utah:		
Beaver, PO	POD	34,765
Cedar City, PO	POD	121,500
Helper, PO	POD	38,700
Nephi, PO	POD	21,420
Price, PO	POD	144,000
St. George, PO	POD	117,000
Salt Lake City, PO, CT	POD	235,914
Springville, PO	POD	25,935
Vernal, PO	POD	147,000
Vermont:		
Middlebury, PO	POD	10,400
Springfield, PO	POD	15,300
Virginia:		
Alexandria, 816 North St. Asaph St	OASI	12,500
Arlington, Bureau Yards and Docks	Navy	19,938
Arlington, Pentagon	USAF	20,000
Blackstone, PO	POD	41,500
Chatham, PO	POD	34,800
Franconia, Bldg. "B"	CIA	70,842
Staunton, PO	POD	15,000
Strasburg, PO	POD	39,400
Woodstock, PO	POD	28,000
Washington:		
Kent, PO	POD	371,000
Okanogan, PO	POD	13,000
Seattle, FOB	Army	13,050
Shelton, PO	POD	332,000
Sunnyside, PO	POD	11,300
Yakima, PO, CT	POD	15,000
West Virginia:		
Grafton, PO	POD	25,000
Hinton, PO	POD	282,500
Ripley, PO	POD	44,200
Sistersville, PO	POD	46,900
Spencer, PO	POD	15,300
Wellsburg, PO	POD	60,500
Wisconsin:		
Menomonie, PO	POD	281,700
South Milwaukee, PO	POD	428,800
West Bend, PO	POD	558,500
Wyoming:		
Casper, PO, CT	DOD	10,245
Newcastle, PO	POD	36,000
Wheatland, PO	POD	13,175
Design and construction of fallout shelters in approximately 500 Government-owned buildings.	DOD, OCD	13,120,000
Total		61,840,013

Mr. THOMAS. Are there further questions? If not, we want to certainly thank all of this distinguished group. You have been very helpful to us and very patient. Your information has certainly been more than adequate. We want to thank our very genial Administrator, Mr. Boutin, for his courtesy, Mr. Knott, Deputy Administrator, Mr. Griffin, Assistant Administrator, and certainly Mr. Turpin has been outstanding; the general counsel, Mr. Moody, is always helpful, and we want to thank Mr. Daly, the Commissioner of Public Buildings Service, and his very able assistant, Mr. Schmidt. The Federal Supply Service would in no manner be complete without our very able and genial friend, the Commissioner, Mr. Bean. He has been worth a lot to the Government. We wish you well, as well as your very able assistant, Mr. McGee. Mr. Barron is undertaking a new spot, Commissioner for Utilization. We wish him well. He has a big job on his hands. He is really going after it.

Of course, we have our old standby, Dr. Wayne C. Grover, the Archivist of the United States, and his assistant, Mr. Bahmer. We always welcome Dr. Grover and his crowd.

In transportation and communications, Mr. Conrad is a very able and distinguished gentleman. He has a tough job. We know he will do it right. From the Defense Materials Service, Commissioner Connell is always of assistance, as well as Mr. Harlan. Thank you all. Good luck to all of you. Please come back to see us.

Mr. OSTERTAG. May I add one further comment, Mr. Chairman? Mr. Administrator, I want to pay tribute to you for the apparent fund of knowledge you have about this business of General Services.

Mr. BOUTIN. Thank you, sir.

Mr. OSTERTAG. It is a tremendous operation, and for one who developed an intimate and close and working knowledge of the many functions and operations and programs and activities as you have, I think it is a credit to you and to the Government.

Mr. BOUTIN. Thank you very much.

Mr. BOLAND. May I add I agree with my colleague, Mr. Ostertag. This is typical Yankee ingenuity, ability, and resourcefulness. Our new colleague could not be here. He is a New Hampshire citizen. I am sure he would have enjoyed listening to you and the manner in which you conduct this vast agency, which, as the chairman pointed out at the start of the hearings, is one of our real favorites.

Mr. THOMAS. Thank you all very much.

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