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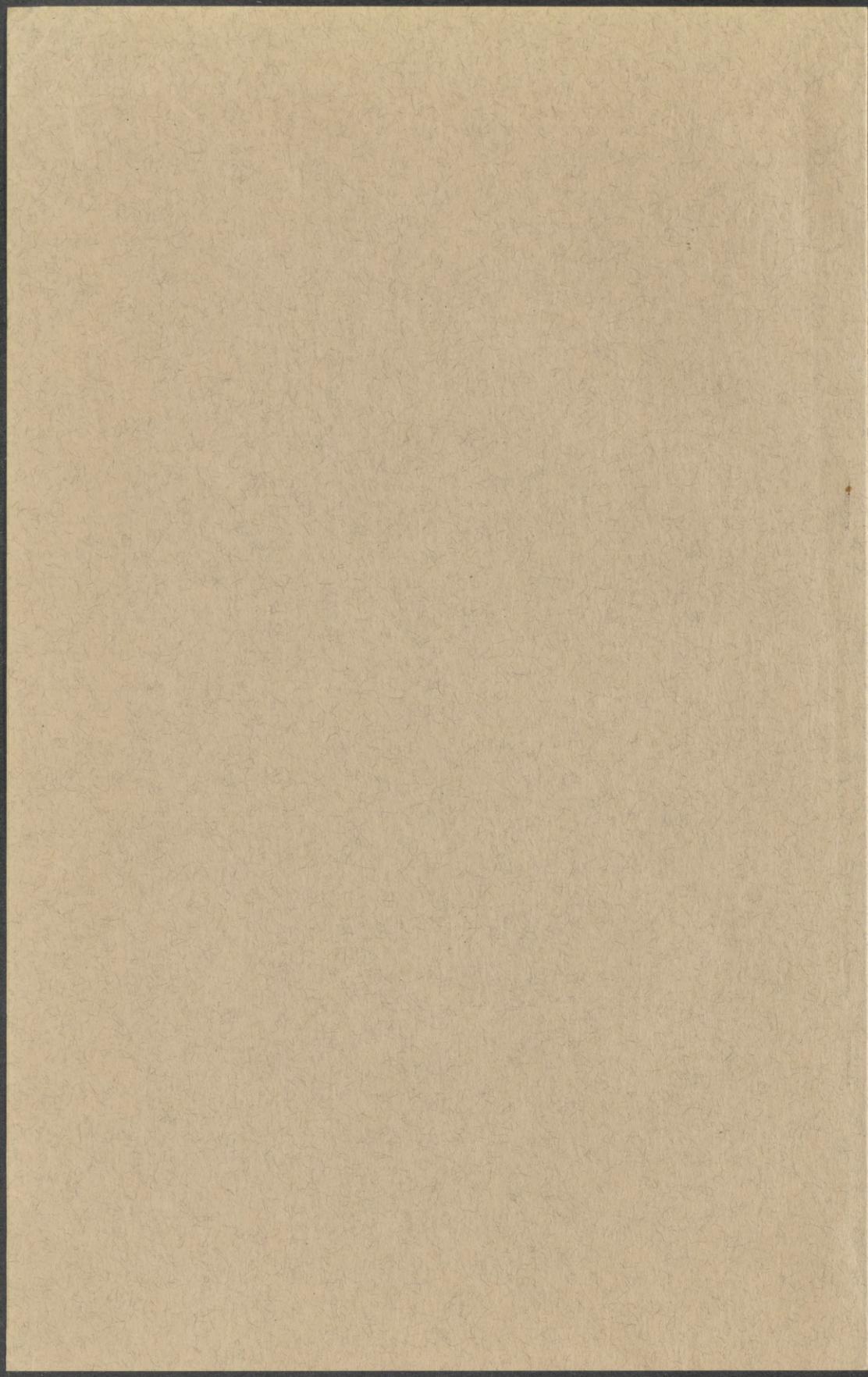
THE BUDGET FOR 1967

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HEARINGS BEFORE THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES EIGHTY-NINTH CONGRESS SECOND SESSION

Printed for the use of the Committee on Appropriations

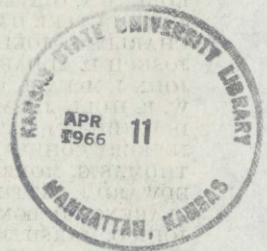




THE BUDGET FOR 1967

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BEFORE THE
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS
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HEARINGS

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¹ Deceased February 15, 1966.

² Elected March 8, 1936.

THE BUDGET FOR 1967

MONDAY, JANUARY 31, 1966.

WITNESSES

TREASURY DEPARTMENT

HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY
HON. ROBERT A. WALLACE, ASSISTANT SECRETARY OF THE
TREASURY
PETER D. STERNLIGHT, DEPUTY UNDER SECRETARY FOR MONE-
TARY AFFAIRS
THOMAS F. LEAHEY, ASSISTANT DIRECTOR, OFFICE OF TAX
ANALYSIS
ROBERT J. MOODY, SPECIAL ASSISTANT TO THE SECRETARY

BUREAU OF THE BUDGET

HON. CHARLES L. SCHULTZE, DIRECTOR, BUREAU OF THE BUDGET
ELMER B. STAATS, DEPUTY DIRECTOR
SAMUEL M. COHN, ASSISTANT DIRECTOR, OFFICE OF BUDGET
REVIEW

OPENING REMARKS OF THE CHAIRMAN

Mr. MAHON. The committee will come to order.

I believe I recall in the copy book a statement entitled "Time and Tide Wait for No Man."

I would make an addition to that on this snowy morning and say that time and tide and consideration of the budget wait for no man. This cold, snowy, difficult day is not the best day of the year—attendance is unavoidably on the lower side—but we must proceed to the consideration of important public business.

We are honored to have before us this morning the able Secretary of the Treasury, the Honorable Henry Fowler and members of his staff, and the able Director of the Bureau of the Budget the Honorable Charles Schultze and members of his staff.

We welcome you here. I feel certain that you are going to be helpful to us as we begin, in the Committee on Appropriations, examination of the President's new budget in which he requests total new obligational authority of \$121,904 million for the fiscal year 1967 which begins July 1 next. This, of course, includes the so-called permanent appropriations that recur automatically under prior laws; interest on the public debt being by far the largest of them.

There are, in addition, for action in the current session, some \$15,757 million of anticipated new obligational authority shown in the new budget as supplemental to the fiscal 1966 totals.

A good overall understanding of Federal expenditures and Federal appropriations and the Federal budget generally in the Congress and the country is essential to good legislation and good government. More than that, some understanding of the relationship of State and local expenditures and Federal appropriations is highly desirable.

I say unequivocally and without fear of successful contradiction that at this time there is no such adequate understanding. The President's budget message contributes toward an understanding of these fiscal matters but we have not yet achieved a condition in which the general public fully, or adequately, understands the fiscal problems and operations of the Federal Government.

It would seem to me that we should begin this hearing with an overall statement from Secretary Fowler. Is that satisfactory, Mr. Secretary?

Secretary FOWLER. Mr. Chairman, if you would permit, I have a statement to make which is accompanied by several charts. The Director of the Budget also has several charts which he would like to present to the committee. After that, it would be our intention to remain to answer questions—dividing the pleasure on the basis of the direction in which they go. Director Schultze will basically handle the expenditure side and I will concentrate on the receipts side. We will both comment on general questions.

Mr. MAHON. The questions will undoubtedly go in all directions.

Approximately how long will your presentations be, Mr. Secretary?

Secretary FOWLER. Mine will be about 20 minutes.

Mr. SCHULTZE. I have no prepared statement but I have 16 charts I would like to run through which may take a half hour.

Mr. MAHON. All right. Suppose you proceed to lay the case on the table, so to speak, before we have a period for questions.

Without objection, we will follow that procedure.

BIOGRAPHIES

Mr. Schultze and Mr. Secretary, I wish we might have from each of you a brief biographical statement in this record.

Secretary FOWLER. We will submit that.

Mr. SCHULTZE. I will be glad to.

(The following were supplied:)

BIOGRAPHICAL SKETCH OF SECRETARY OF THE TREASURY HENRY H. FOWLER

Henry H. Fowler took the oath of office as Secretary of the Treasury at a ceremony held at the White House on April 1, 1965.

Mr. Fowler, who has spent half of his career in Government service, previously served as Under Secretary of the Treasury from February 3, 1961, until April 10, 1964, when he returned to private law practice as senior member of the Washington firm of Fowler, Leva, Hawes and Symington. As Under Secretary, Mr. Fowler served as a general deputy to Secretary Dillon, playing a crucial role in the shaping and in the enactment of the Revenue Acts of 1962 and 1964, the liberalization of depreciation procedures, and the coordination of related programs designed to promote the economic expansion of 1961 to date.

On October 3, 1963, Mr. Fowler was appointed head of a Presidential task force to seek ways of meeting our balance-of-payments problem by encouraging greater foreign investment in American securities as well as greater foreign financing for American corporations operating abroad. On April 27, 1964, the Fowler task force reported its recommendations to President Johnson. The President has submitted to Congress legislative proposals issuing from that report, and a large measure of the current voluntary program to meet the balance-of-payments problem is based on its recommendations.

A graduate of Yale Law School and a lawyer by profession Mr. Fowler first entered Government in 1934, when he joined the legal staff of the Tennessee Valley Authority, where he assisted in the preparation and successful conduct of the 4-year litigation establishing the constitutionality of that program. By 1939, he had risen to Assistant General Counsel of the TVA and subsequently served as chief counsel of a subcommittee of the Senate Committee on Education and Labor. Prior to and during World War II mobilization, from 1941 to 1944, he was an assistant general counsel of the Office of Production Management and afterward of the War Production Board, thereafter performing missions in Great Britain and Germany in 1944 and 1945. After spending the next 5 years in private law practice, he returned to Government service from 1951 to 1953—to work in the mobilization buildup following the outbreak of hostilities in Korea.

He held successive posts as Administrator of the National Production Authority, Administrator of the Defense Production Administration, Director of the Office of Defense Mobilization and member of the National Security Council. Mr. Fowler then resumed private practice until his appointment as Under Secretary of the Treasury in 1961.

Mr. Fowler served as a member of the Commission on Money and Credit from 1958 to 1961, and of the national committee on Government finance of the Brookings Institution from 1960 to 1961. He is a trustee of Roanoke College and of the funds of the Protestant Episcopal Church in the Diocese of Virginia.

Mr. Fowler has received distinguished alumni awards from Tau Kappa Alpha and from Roanoke College, as well as the highest Treasury Department honor—the Alexander Hamilton Award.

Mr. Fowler was born in Roanoke, Va., September 5, 1908, the son of Mack Johnson and Bertha Browning Fowler. He graduated from Jefferson High School, Roanoke, Va. in 1925 and from Roanoke College in 1929. He received his bachelor of laws degree from Yale University Law School in 1932, and his doctorate of judicial science in 1933.

BIOGRAPHICAL SKETCH OF CHARLES L. SCHULTZE, DIRECTOR OF THE BUREAU OF THE BUDGET

Charles L. Schultze took office as Director of the Bureau of the Budget on June 1, 1965. Immediately prior to his appointment to this post by the President, he was professor of economics at the University of Maryland, a part-time senior staff member of the Brookings Institution, and a consultant to the Bureau of the Budget.

From September 1962 to February 1965, Mr. Schultze was an Assistant Director of the Bureau of the Budget. He then rejoined the faculty of the University of Maryland where he had been an associate professor of economics in 1961 and 1962.

From 1959 to 1961, he was an associate professor of economics at Indiana University. He was a staff economist in the Council of Economic Advisers from 1952 to 1959, and earlier had been an economist with the Office of Price Stabilization. He began his Government service in 1948 with the Army Security Agency. From 1949 to 1951, he was an instructor in economics at the College of St. Thomas in St. Paul, Minn. He served in the Army during World War II.

He is the author of "Recent Inflation in the United States" (1959), "Prices, Costs, and Output for the Postwar Decade" (1959), and "National Income Analysis" (1964).

He is a member of the American Economic Association and of the executive committee of the National Bureau of Economic Research Conference on Income and Wealth.

He was born in Alexandria, Va., on December 12, 1924. He received an A.B. degree in 1948 and an M.A. degree in 1950 from Georgetown University, and a Ph. D. degree in 1960 from the University of Maryland. He married Rita Irene Hertzog in 1947 and they have six children.

GENERAL STATEMENT OF THE SECRETARY OF THE TREASURY

Secretary FOWLER. Mr. Chairman, I welcome the opportunity to appear before this distinguished committee which is charged with the responsibility of originating action on all appropriations measures.

The experience of the body in dealing with the hundreds of items that come before it each year is a national asset of priceless value. I appreciate your invitation to discuss the President's overall budget with you.

Mr. Chairman, I was especially interested in reading your statement before the House, which you made on January 24. Its grasp of the money problems before the country has been extremely useful to those of us in the executive branch who must deal with these issues, and I highly recommend it to all students of fiscal matters.

Mr. MAHON. Mr. Secretary, I would like to thank you for your complimentary reference. We may consider incorporating it in these hearings at a later point. (See p. 152.)

Secretary FOWLER. Mr. Chairman, attached at the end of my statement is a series of charts which I will discuss as we progress through the statement. Also, for the benefit of those who would prefer to see them in larger form while the discussion goes forward, they will be revealed at the side of the hearing room at the appropriate point in the commentary.

THE PRESIDENT'S FISCAL PROGRAM

The fiscal program for 1967 had to meet three essential requirements. First, and uppermost, was the need for additional funds to carry out our stepped up activities in Vietnam. Second, it had to carry forward essential domestic programs at the lowest possible cost, while curtailing all of our lower priority activities. Third, it had to insure that the overall impact on the economy would be non-inflationary.

The President's budgetary proposals before this committee, and his tax recommendations now under consideration by the House Ways and Means Committee, have been carefully designed to meet these essential requirements.

THE PRESIDENT'S BUDGET RECORD

RECEIPTS AND EXPENDITURES

Since the President's state of the Union and budget messages have been issued there has been a good deal of comment about his estimates of both revenues and expenditures—that revenues might be overstated and expenditures understated.

This is quite natural in view of the past experience of this committee stretching back through the years. As the chairman pointed out in his statement, understatements and overstatements, have been more characteristic of past experience than estimates which have hit the target directly on the nose.

Estimates of spending in the past have tended to be low, while the estimates of revenues have tended to be somewhat high. For example, the chairman pointed out that in budgets over the past 11 years, the total of all revenue projections was nearly \$8.5 billion higher than the final results—that in 6 of the 11 years, actual revenues were less than those projected in the original budget. In the case of expenditures, however, the total of the original projections was nearly \$21.5 billion lower than the actual results. The combined deficits were nearly \$30 billion greater than the original projections.

In view of this record it is only natural to question new estimates. However, I think you will be particularly interested in the record of those budgets which have been submitted by President Johnson.

First let us consider expenditures. Have these been running more than his estimates? Chart 1 compares the original budget estimates with what actually happened since he became President. For fiscal 1964, the original budget estimate made in January 1963 was \$98.8 billion. It finished up at \$97.7 billion, over \$1 billion less.

In fiscal 1965, the President's original estimate was \$97.9 billion. It turned out to be \$96.5 billion, a reduction of nearly \$1.5 billion.

These actual expenditures for fiscal 1965 were \$1.2 billion less than those in fiscal 1964 and \$2.3 billion less than those originally projected for fiscal 1964. Only one other time in the past 10 years have actual expenditures declined below those of a previous year.

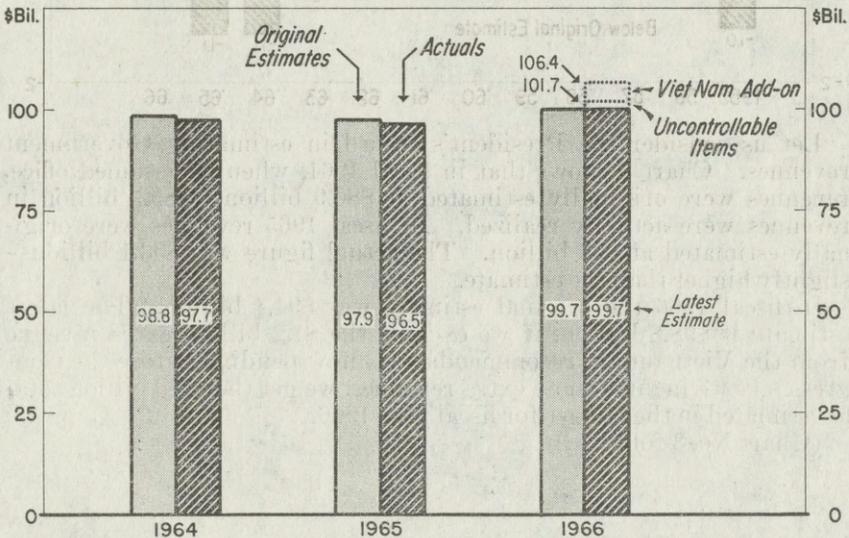
The expenditure target for fiscal 1966 was fixed last January at \$99.7 billion. Some \$4.7 billion of additional expenditures resulting from accelerated military activity in Vietnam were unavoidable. Added to this were \$2 billion of uncontrollable or legislated expenditures which also could not be avoided by administrative action. These included \$740 million of military and civilian pay increases voted by Congress in excess of Presidential recommendations, an additional \$288 million increase in veterans pensions, a \$500 million increase in interest charges on the debt and a half billion each of payments required by law under the space and agricultural commodity programs. These more than offset economies realized since the original estimate.

(Chart No. 1 follows:)

CHART 1

EXPENDITURES

Original Estimates Compared with Actuals



In summary, had it not been for unavoidable cost increases due to Vietnam and the uncontrollable increases cited, the President in nearly 3 years in office would have held expenditures in the adminis-

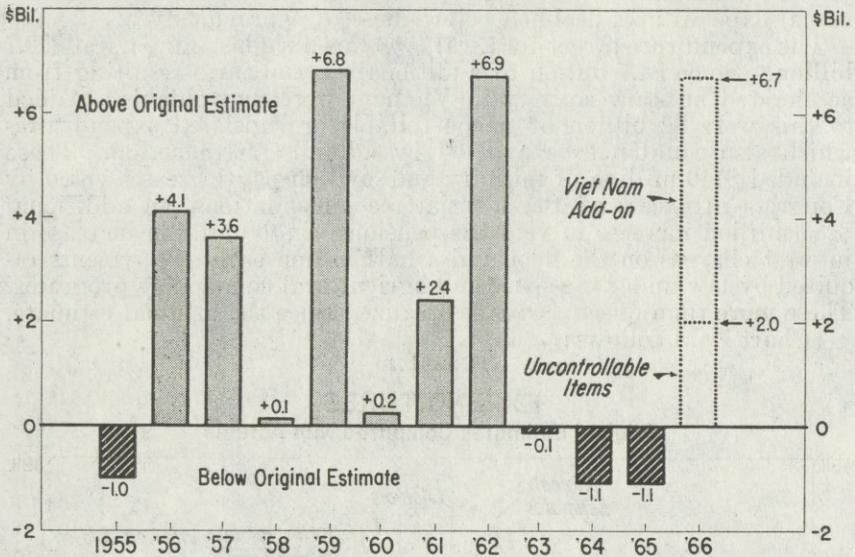
trative budget to an increase of less than \$1 billion over the amount estimated for the fiscal year in which he assumed office. This should be compared with the average increase of \$3 billion per year in expenditures over the previous 10 years.

How does the President's record of forecasting expenditures compare with that of previous years? Chart 2 shows that actual expenditures exceeded original estimates in every single year from 1955 through 1962. They were slightly less in fiscal 1963 and over \$1 billion less in fiscal 1964 and 1965 after he became President.

(Chart No. 2 follows:)

CHART 2

EXPENDITURES

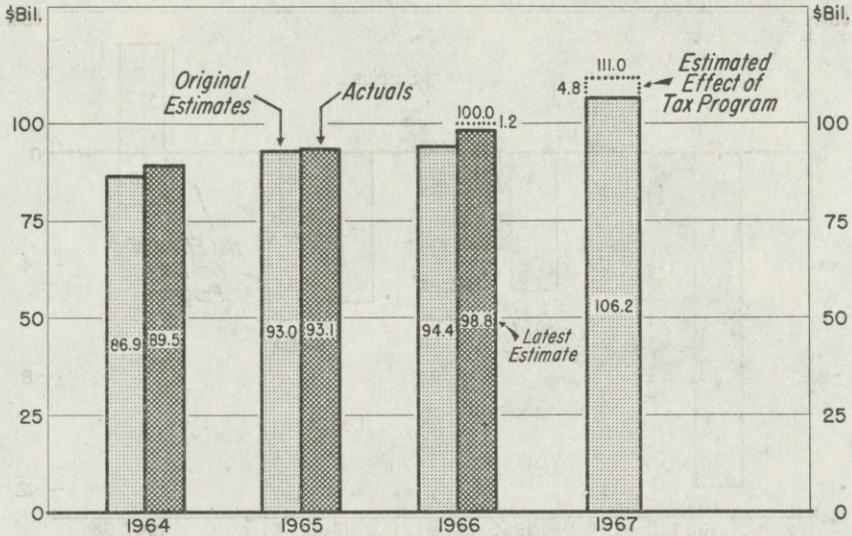


Let us consider the President's record in estimating Government revenues. Chart 3 shows that in fiscal 1964, when he assumed office, revenues were originally estimated at \$86.9 billion. \$89.5 billion in revenues were actually realized. In fiscal 1965 revenues were originally estimated at \$93 billion. The actual figure was \$93.1 billion—slightly higher than the estimate.

In fiscal 1966 the original estimate was \$94.4 billion. The latest estimate is \$98.8 billion, if we exclude the \$1.2 billion extra revenue from the Vietnam tax recommendations now pending before the Congress. If we include those extra revenues, we get the \$100 billion total as estimated in the budget for fiscal year 1966.

(Chart No. 3 follows:)

CHART 3
REVENUES
 Original Estimates Compared With Actuals



Mr. Chairman, these figures demonstrate that President Johnson has never yet overestimated revenues. More than that, they indicate a high degree of accuracy in his estimates.

I would point out to the committee that the one imponderable and unpredictable factor in this situation is whether or not we have a sharp downturn in the economy. Projecting revenues over an 18-month period ahead, the unforeseeable prospect that the economy might turn down could always cause these revenues to be overestimated.

However, given the continued progress of the economy along the lines that the general consensus of both Government and private economists indicate, we think the revenues will hold up.

PROGRESS TOWARD BALANCING THE BUDGET

Chart 4 shows the President's progress toward achieving a balanced budget in a balanced economy—a subject which I know is close to your hearts and concerns.

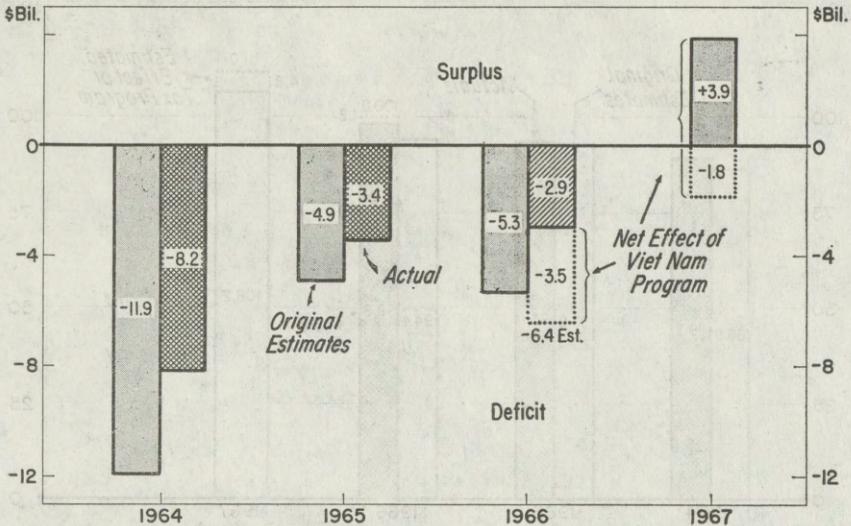
The original deficit estimated for 1964 was \$11.9 billion. The President reduced this to \$8.2 billion, in part because of reduced expenditures and in part because revenues increased beyond our estimates.

The deficit estimated for fiscal year 1965 was \$4.9 billion. He reduced this to \$3.4 billion.

The deficit for fiscal 1966 was estimated at \$5.3 billion. Without the Vietnam programs this would now be cut to \$2.9 billion (\$101.7 billion expenditures and \$98.8 billion revenues).

(Chart No. 4 follows:)

CHART 4
DEFICITS
Original Estimates Compared with Actuals



And finally, were it not for the Vietnam program increases in both expenditures and revenues for fiscal 1967, the budget could show a surplus of \$3.9 billion. (Expenditures without Vietnam are \$102.3 billion; revenues are \$111 billion minus the \$4.8 billion tax program, or \$106.2 billion.)

TAX POLICIES, ECONOMIC GROWTH, AND REVENUES

Now for a few comments on tax policies, economic growth and revenues which are an interrelated aspect of the current situation.

The President has consistently and successfully fought to restrain and get maximum efficiency out of every dollar of Federal spending—my colleague, Director Schultze, can give you much more chapter and verse on that point than I can looking at it from the standpoint of a single department—and through these efforts has made possible the substantial tax reductions of 1964 and 1965. This was in accordance with his policy that the high rate structure of our tax system was stifling the economy. He felt that the growth of the Nation's economy could be accelerated, production and incomes greatly increased, and unemployment reduced through tax rate reduction—that this higher economic activity would result in higher rather than lower revenue yields because of the greatly enlarged taxable base.

This approach under President Kennedy's administration began with the investment credit and liberalized depreciation allowances of 1962. The big breakthrough, however, came with the congressional enactment of the Revenue Act of 1964 providing for the largest cut in corporate and individual income taxes in history.

The policy was carried further with the enactment of the excise tax reduction program in the summer of 1965.

We have made substantial progress toward achieving our economic goal as envisioned by the President's policies as we are about to enter the 6th year of continuous and vigorous expansion. It is because of progress and the problems of progress and prosperity that I think we really are confronted by something of a new situation in connection with this budget.

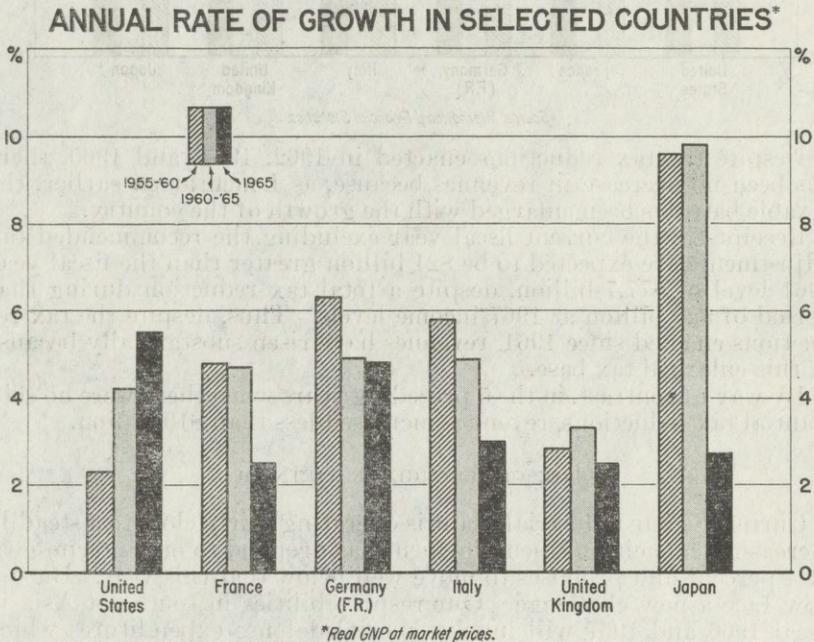
The gross national product which was at an annual rate of \$503.6 billion in early 1961 had risen \$191.0 billion by late 1965—an increase of over a third. Unemployment which reached a peak of 7 percent in May of 1961 dropped to 4.1 percent by December of 1965. Virtually every economic indicator—corporate profits, business investments, retail sales, personal income—all have set new records.

I believe the committee will be interested in our record of growth as it compares with other major countries of the free world, although they are not completely comparable since our economy is so much larger. Nonetheless, this comparison has been a matter of continuing interest to the Congress over the years.

This is shown in chart 5. In the 1955-60 period our annual rate of growth was only 2.3 percent—far lower than virtually all of the other major countries. In the 1960-65 period it rose to 4.2 percent—a great improvement, but still behind most of the others. In 1965, however, the United States forged ahead with a real GNP increase of 5.5 percent. Our current rate of growth in real output has now surpassed that of every other major country in the free world.

(Chart No. 5 follows:)

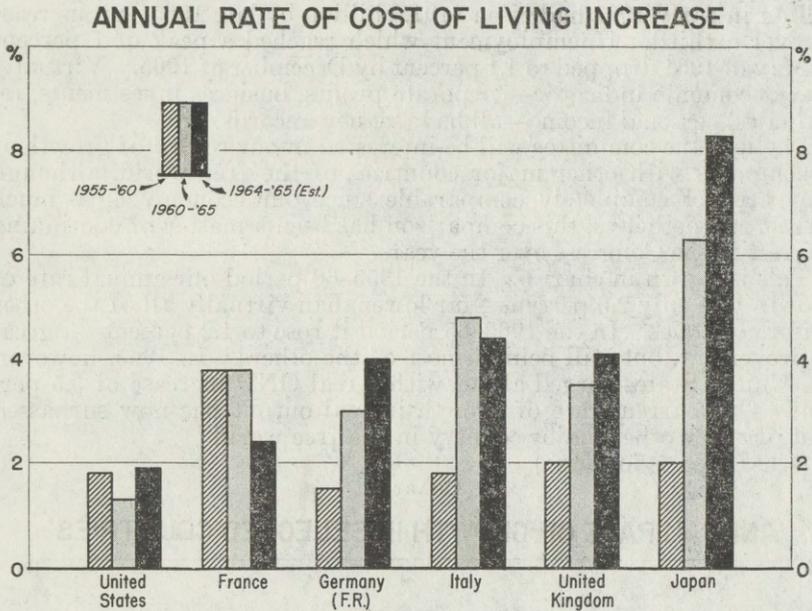
CHART 5



The most gratifying aspect of our growth, however, is that it has been achieved without inflation. As shown in chart 6, the United States has maintained the most stable price level of all major countries of the world. In the face of new pressures—and this is the important point—we shall have to exert strong efforts to keep this lead.

(Chart No. 6 follows:)

CHART 6



Despite the tax reductions enacted in 1962, 1964, and 1965, there has been no decrease in revenues because, as I mentioned earlier, the taxable base has been enlarged with the growth of the country.

Receipts in the current fiscal year excluding the recommended tax adjustments are expected to be \$21 billion greater than the fiscal year 1961 level of \$77.7 billion, despite a total tax reduction during that period of \$20 billion at 1967 income levels. Thus, despite the tax reductions enacted since 1961, revenues have risen substantially because of this enlarged tax base.

By way of contrast, in the 5 preceding years when there were no substantial tax reductions, revenues increased less than \$10 billion.

THE CHALLENGE OF VIETNAM

Currently, our industrial plant is operating fairly close to a steadily increasing capacity. Unemployment has dropped to our interim goal of 4 percent and promises to move well below that this year. But we now face a new challenge. Our responsibilities in southeast Asia in fiscal 1966 and 1967 will involve special defense expenditures which will increase the budget totals by \$4.7 billion in fiscal 1966 and an additional \$5.8 billion in fiscal 1967, for a total of \$10.5 billion as compared to the original estimate for this particular activity made in January a year ago.

The narrowing gap between supply and demand, the increasing cost and the uncertainties of the situation in southeast Asia make it desirable to postpone further tax reductions and to move in the direction of fiscal restraint. This is the significant change between this budget, Mr. Chairman, and the budgets which have previously come to you in recent years. This is turning the ship around and instead of a budget designed to provide fiscal stimulus to the economy, we have a budget designed to move in the other direction with moderate restraint.

Even after cutting less essential expenditures and making all feasible economies, President Johnson faced the prospect of a sizable administrative budget deficit in fiscal 1967.

Under these circumstances, he was faced with three choices:

1. A deficit in excess of \$6.5 billion, which would require the Government to borrow the additional money.
2. An increase in corporate and personal income tax rates, or recommended other new taxes.
3. Temporary restoration of certain excise taxes, and adoption of graduated withholding of individual income taxes and more current payment of corporate income taxes—to put the American people on a pay-as-you-go basis without increasing the total tax bill due.

He chose the latter course—to introduce a moderate degree of restraint in fiscal policy by recommending measures which, without changing anyone's final tax liabilities, would increase fiscal year 1966 revenues by \$1.2 billion and fiscal year 1967 revenues \$4.8 billion.

It has been said that these measures are one-shot affairs—that the increase will be good for 1 or 2 years only. Of course they are. That is their precise intent. If an abatement of Vietnam activities becomes possible, we will not have made any major change in our tax structure. But the program will produce the added revenues needed for the situation as we see it now.

On the other hand, as the President said in his budget message, if events in southeast Asia so develop that additional funds are required, he will not hesitate to request them. If this occurs, or should unforeseen inflationary pressures develop, he will propose such fiscal actions as are appropriate to maintain economic stability.

OUTLOOK UNDER PRESENT FISCAL POLICIES

Along with revenue growth because of economic expansion, the President's tax program will be sufficient to—

Reduce the fiscal 1967 administrative budget deficit to an estimated \$1.8 billion from the \$6.4 billion currently estimated for fiscal 1966.

Produce a \$500 million surplus in the fiscal 1967 cash budget, the first in 7 years.

Given the present state of the economy, the recommended fiscal program should enable the economy to proceed at about last year's pace, avoiding new stimulus and moving toward moderate restraint. Therefore, the President's tax recommendations and accompanying economies in less essential programs will be an essential element in our overall economic program for the period immediately ahead.

REVENUE ESTIMATES

The budget revenue projections for the fiscal years 1966 and 1967 are based on the assumption that the economy will continue to move forward at about the same pace in this calendar year 1966 as in calendar year 1965 and that substantial gains in employment and incomes will be realized in the coming year.

There have been comments to the effect that revenues may not be as high as we have estimated because a business downturn could cause revenue losses. Of course, this could happen but we see no such prospect. The Commerce-SEC survey of anticipated plant and equipment expenditures indicates that the annual rate of business investment in the second quarter of 1966 will be \$8.5 billion higher than in the second quarter of 1965, a rise even larger than the \$6.8 billion increase for the preceding year.

Examining other indicators of future economic activity, we find that both new orders and unfilled orders for durable goods are higher than they were a year ago. Machine tool orders are at a high level. Inventory investment is expected to be strong now that liquidation of steel inventories has been completed. Finally, the Michigan Survey Research Center's survey of consumers found the percentage of households planning to buy a car was at an alltime high. All of these factors, added to stepped-up Government defense purchases, indicate that the current expansion will continue in 1966.

We have estimated that gross national product, the total value of all goods and services produced, will average \$722 billion in the calendar year 1966. This would be a rise of \$46.4 billion over the calendar year 1965, about the same as the \$46.9 billion increase of last year. If realized, the total GNP in 1966 will represent a 6-year gain of \$218.2 billion or 43.3 percent over the \$503.8 billion level for calendar 1960.

Personal income and corporate profits estimates for 1966 reflect the GNP rise. Personal income, which was \$531 billion in calendar 1965, is estimated to increase \$36.3—to \$567.0 billion. This is slightly larger than the 1965 gain of \$35.7 billion. Corporate profits before tax are estimated at \$80 billion in 1966, \$5.4 billion higher than 1965. This increase is substantially less than the extraordinarily large rise of \$9.8 billion realized in 1965, but total corporate profits would nonetheless equal 11.1 percent of gross national product.

Fiscal 1967 revenues are expected to be \$11 billion higher than fiscal 1966. Of this amount \$7.5 billion would come from economic growth—higher incomes and hence a higher taxable base. Accelerated corporate tax payments which were provided for under the 1964 Revenue Act account for an added \$0.4 billion. The excise tax reductions enacted last year caused us to deduct \$1.6 billion. Then the effect of the current tax recommendations, now pending before the Congress, would add a net of \$3.5 billion. Total net revenue gains would thus be \$9.8 billion.

A net increase in estimated miscellaneous receipts accounts for another \$1.2 billion, bringing the total increase to \$11.0 billion for fiscal year 1967 as compared to fiscal year 1966.

The main factor in higher miscellaneous receipts, of course, is the higher seigniorage expected under the new coinage program.

THE PUBLIC DEBT

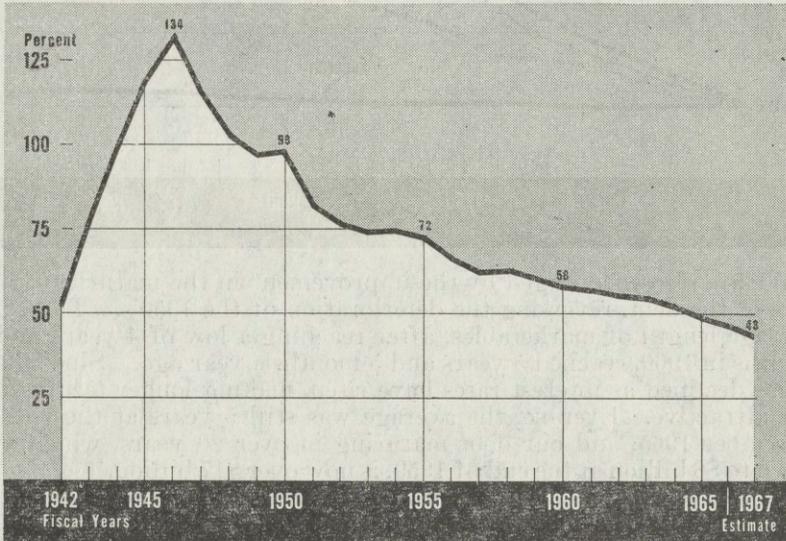
As I have pointed out, the Vietnam expenditure overlay will cause deficits in fiscal 1966 and 1967, prevent the achievement of a budgetary surplus in fiscal 1967, and necessitate a further rise in the public debt. This, in itself, is regrettable. Nevertheless, aside from certain technical matters I will discuss later, we believe such an increase does not present a serious management problem. There are several reasons for this.

First, the public debt has been growing at a lesser rate than the economy. As shown in chart 7 the public debt, which reached a peak of 134 percent of GNP in 1945, dropped to 129 percent in 1946, declined to 58 percent in 1960, and fell to only 47½ percent in 1965.

We expect it to fall further to about 43 percent in 1967. Thus, the size of the public debt should not strain the economy's carrying capacity.

(Chart No. 7 follows:)

CHART 7

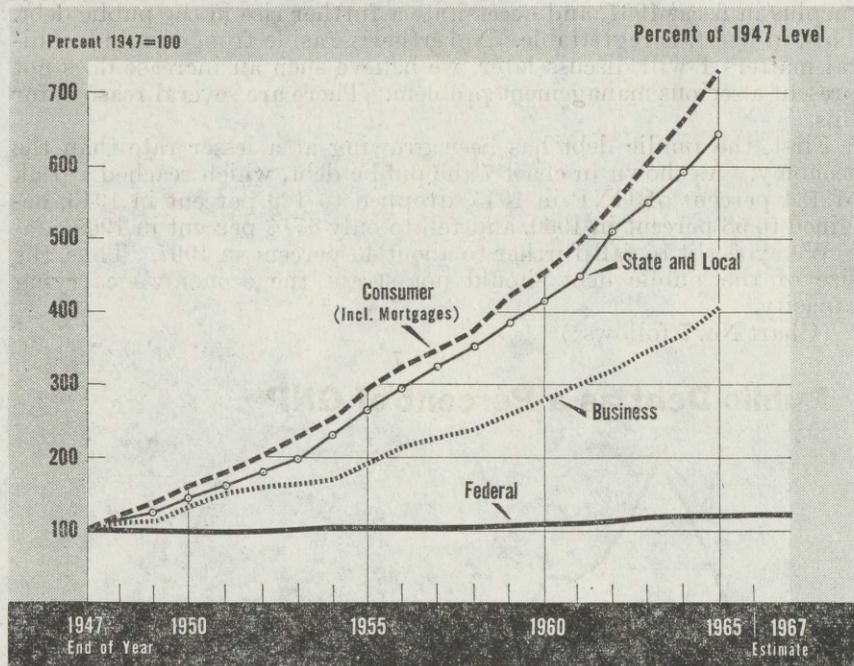
Public Debt as a Percent of GNP

Secondly, the interest burden of the debt, although increasing in dollar amount, is not growing relative to GNP. Interest as a percent of GNP declined from 2.3 percent in 1946 to 1.9 percent in 1960 and is now about 1.7 percent.

While speaking of this regrettable increase in the Federal debt, it is worth noting that it has not been growing nearly as fast as either private debt or State and local debt. This is shown in chart 8. Since 1947 State and local debt has grown over 500 percent, consumer debt including mortgage credit has risen over 600 percent, and business debt has jumped 300 percent. Meanwhile the Federal debt has grown less than 25 percent above the 1947 level.

(Chart No. 8 follows:)

CHART 8

Net Public and Private Debt

We are also encouraged by the improvement in the maturity structure of the debt, reversing the deterioration of the 1950's. Thus, the average length of marketables, after reaching a low of 4 years and 2 months in 1960, reached 5 years and 5 months a year ago. Since then, it has declined as interest rates have risen, making longer term issues less attractive. Even so, the average was still 5 years at the end of December 1965, and our debt maturing in over 20 years, which was down to \$8 billion at the end of 1959, is now over \$17 billion.

Thus the fundamentals in terms of growth and ownership of the debt do not present insurmountable problems. Of course we will have the usual problem of the debt limit, which will bring us back to the Congress for action before June 30. The temporary debt limit of \$328 billion will revert to the permanent ceiling of \$285 billion on July 1. At that time we will have \$320 billion of debt outstanding, well above the permanent ceiling. We obviously cannot stop refunding maturing debt or selling savings bonds, so it will be necessary again to increase the debt ceiling.

I include in my statement a summary of the President's budget and fiscal program. I won't take the time of the committee to quote it, but merely insert it here for the record.

(The statement follows:)

The unprecedented and uninterrupted economic growth of the past 5 years has clearly demonstrated the contribution that appropriate fiscal action can make to national prosperity. Aided by the judicious use of tax and expenditure policy,

the Nation continues to benefit from the longest period of sustained economic growth since the end of World War II.

A growing economy provides rising Federal revenues and expanding economic resources both for meeting our military and international commitments and for moving closer to our Great Society goals. But this does not relieve us of the obligation to weigh expenditure decisions carefully and carry them out efficiently. Inflation need not be the price of social progress; nor should it be a cost of defending freedom.

This budget represents a responsible fiscal program. It accommodates our foreign and domestic responsibilities in an environment of strong but noninflationary economic growth.

Mr. MAHON. Thank you, Mr. Secretary, for a very interesting and excellent statement.

We will now hear from the Director of the Bureau of the Budget.

GENERAL STATEMENT OF DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. SCHULTZE. I believe everyone has an individual set of the charts—in reduced size—which go with my presentation, so you can either look at the small charts or look at the large ones on the easel.

You will notice that there are numbers in the bottom right-hand corner of your set of small charts. When I refer to these chart numbers, you can go back and forth between the two.

You will also notice that your charts are broken into four sections. I would like to talk about the budget in those four sections.

CONSOLIDATED CASH BUDGET

First, some background on the cash budget, which is a budget this committee normally does not look too closely at.

Mr. MAHON. Be sure at this point in the record to explain precisely what the cash budget is. We know, but we want it in the record.

Mr. SCHULTZE. I will do so, Mr. Chairman.

(The information requested follows:)

CONSOLIDATED CASH BUDGET

The consolidated cash statement of Federal receipts and payments brings together transactions of the administrative budget (covering funds wholly owned by the Government) and receipts and expenditures of trust funds. Since the consolidated cash statement measures the flow of cash between the public and the Government, intragovernmental transactions (transactions between budget and trust accounts) are excluded.

Also, the consolidated cash totals are on a check-paid basis, while the administrative budget expenditures are on a check-issued basis.

Because it shows more fully the operations of funds administered by the Government, the cash consolidated budget is a better measure of the extent of Government fiscal operations in the economy. It includes, for example, the roughly \$27 billion of social security taxes and benefits in 1967, and these transactions do have significant economic effects.

As a further illustration, for the fiscal year 1965 receipts as shown in the administrative budget totals were \$93.1 billion, while under the consolidated cash budget receipts from the public were \$119.7 billion. On the expenditure side, the administrative budget total was \$96.5 billion, while the cash consolidated budget showed payments to the public at \$112.4 billion.

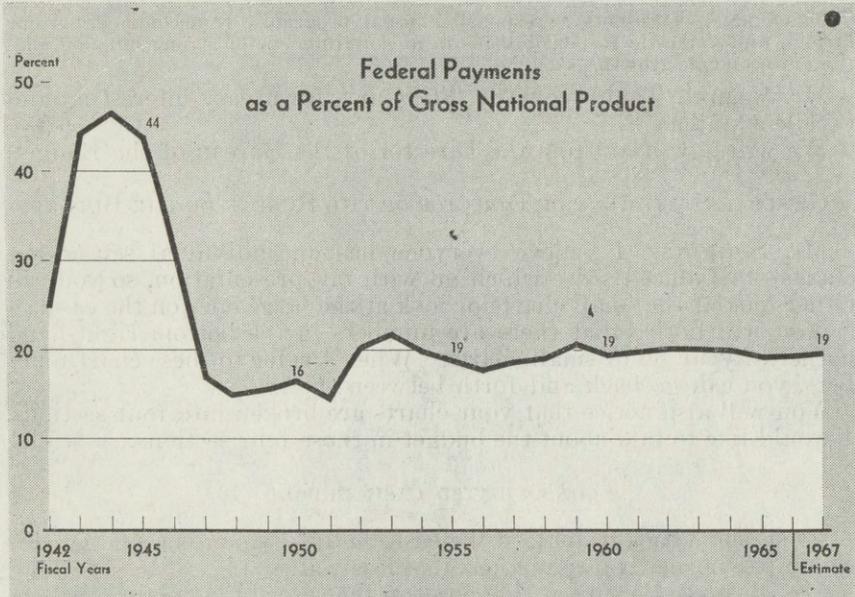
Mr. SCHULTZE. The second section of the charts relates to the administrative budget and its major elements; the third section to certain special aspects of the budget; and the fourth section to the public debt. That latter part the Secretary himself has covered so I don't really need to give it much, if any, attention.

FEDERAL PAYMENTS AS A PERCENT OF GROSS NATIONAL PRODUCT

If I may turn to Chart No. 1, which gives a historical perspective on the cash budget.

(Chart No. 1 follows:)

CHART 1



Mr. SCHULTZE. Essentially, the cash budget is simply the administrative budget, containing the Government-owned funds, plus transactions of the trust funds, primarily the social security funds and the highway trust fund. Hence, the cash budget represents the total cash outlays of the Federal Government to the public and the total cash receipts from the public. We often call it the consolidated cash budget since it consolidates or puts together the administrative budget and the trust funds.

You will note that, starting after Korea, as a percentage of our total national economic activity, the gross national product, cash budget payments have fluctuated around 19 percent of the gross national product level. There was a bump up in 1952 and 1953 during Korea and another slight rise in 1959 in response to the recession of the year before. You will also notice that in 1965 the percentage dips slightly below 19 and it will rise slightly in 1966 and 1967.

Mr. MAHON. Mr. Director, be certain also to indicate what the corresponding percentage figure is with respect to the administrative budget.

Mr. SCHULTZE. I have that in a later chart.

Mr. MAHON. I know you do, but we want it here, also.

Mr. SCHULTZE. I will do that, Mr. Chairman, and I will also include Federal purchases of goods and services which I also have in a later chart.

(The information requested follows:)

Federal finances and the gross national product, 1942-66

[Amounts in billions of dollars]

Fiscal year	Gross national product	Administrative budget expenditures		Cash payments to the public		Federal purchases of goods and services	
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
1942.....	139.2	34.0	24.4	34.5	24.8	29.9	21.5
1943.....	177.5	79.4	44.7	78.9	44.5	72.3	40.8
1944.....	201.9	95.0	47.1	94.0	46.6	85.6	42.4
1945.....	216.8	98.3	45.3	95.2	43.9	89.7	41.4
1946.....	201.6	60.3	29.9	61.7	30.6	40.1	19.9
1947.....	219.8	38.9	17.7	36.9	16.8	13.0	5.9
1948.....	243.5	33.0	13.5	36.5	15.0	13.2	5.4
1949.....	260.0	39.5	15.2	40.6	15.6	19.3	7.4
1950.....	263.3	39.5	15.0	43.1	16.4	19.0	7.2
1951.....	310.5	44.0	14.2	45.8	14.7	25.1	8.1
1952.....	337.2	65.3	19.4	68.0	20.2	46.6	13.8
1953.....	358.9	74.1	20.7	76.8	21.4	56.1	15.6
1954.....	362.1	67.5	18.7	71.9	19.8	53.2	14.7
1955.....	378.6	64.4	17.0	70.5	18.6	43.9	11.6
1956.....	409.4	66.2	16.2	72.5	17.7	45.2	11.0
1957.....	431.3	69.0	16.0	80.0	18.5	47.7	11.1
1958.....	440.3	71.4	16.2	83.5	19.0	50.7	11.5
1959.....	469.1	80.3	17.1	94.8	20.2	54.7	11.7
1960.....	495.2	76.5	15.5	94.3	19.0	52.7	10.6
1961.....	506.5	81.5	16.1	99.5	19.7	55.5	11.0
1962.....	542.1	87.8	16.2	107.7	19.9	60.9	11.2
1963.....	572.4	92.6	16.2	113.8	19.9	63.4	11.1
1964.....	609.6	97.7	16.0	120.3	19.7	65.8	10.8
1965.....	648.7	96.5	14.9	122.4	18.9	64.5	9.9
1966 (estimate)....	700.0	106.4	15.2	135.0	19.3	70.7	10.1

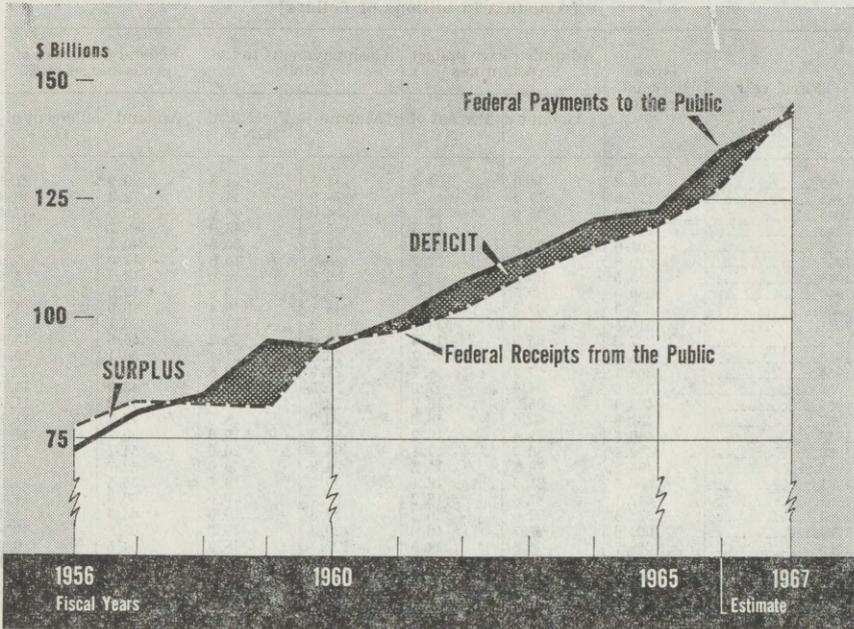
At this point I might say that, rounded, administrative budget expenditures as a percent of gross national product come out to 15 percent in 1966 and 1967. I think it is interesting to note that if it had not been for the added cost of the buildup in Vietnam, the decline which occurred from 1964 to 1965, a very shallow modest decline in the percentage of our gross national product represented by the cash budget, would have continued, so that in 1967 total cash expenditures would have fallen to just about 18 percent of the gross national product. You can see on the chart the slight decline in 1965, which is interrupted essentially because of the situation in Vietnam. Otherwise, the decline would have continued.

TRENDS IN THE CONSOLIDATED CASH BUDGET

Let me go to the next chart which gives another perspective on the cash budget.

(Chart No. 2 follows:)

Trends in the Consolidated Cash Budget



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MR. SCHULTZE. The dotted line shows the revenues in the cash budget; and the solid line shows the expenditures in the cash budget. You will notice that in 1956 and 1957 there was a small surplus, again in 1960 a small surplus, and finally, in 1967 we project a small surplus. In 1958 there was a modest deficit that became fairly large in 1959 as revenues declined slightly and expenditures rose sharply in response, primarily, to the recession of the preceding year.

I think it is also worthy to note, with respect to 1967, that if we first subtract from expenditures the special costs of our Vietnam operations, some \$10.5 billion, and subtract from our revenues the President's tax proposals made in response to that situation, that instead of this half a billion difference between receipts and expenditures—this half billion surplus—the surplus would be slightly over \$6 billion. Of course, this does not say we would necessarily reach precisely a \$6 billion surplus, but it does indicate the impact of Vietnam on the cash budget.

You may find it useful to have the figures behind this chart. I will insert them for the record.

(The following table was provided:)

Trends in the consolidated cash budget

[In billions of dollars]

Fiscal year	Federal receipts from the public	Federal payments from the public	Excess of receipts (+) or payments (-)
1956	77.1	72.5	+4.5
1957	82.1	80.0	+2.1
1958	81.9	83.5	-1.6
1959	81.7	94.8	-13.1
1960	95.1	94.3	+ .8
1961	97.2	99.5	-2.3
1962	101.9	107.7	-5.8
1963	109.7	113.8	-4.0
1964	115.5	120.3	-4.8
1965	119.7	122.4	-2.7
1966 (estimate)	128.2	135.0	-6.9
1967 (estimate)	145.5	145.0	+ .5

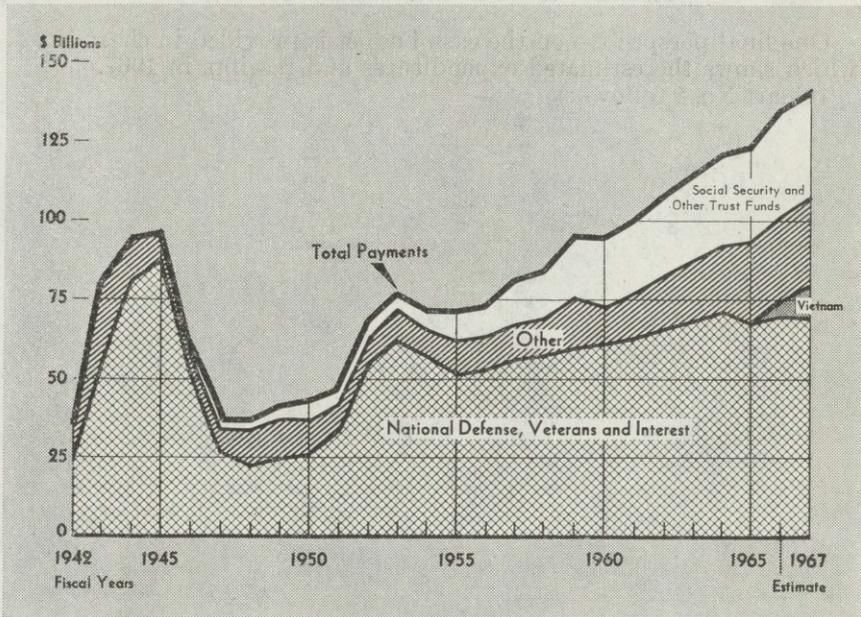
COMPOSITION OF FEDERAL PAYMENTS

The third chart attempts to present the cash budget in one other perspective—in terms of its major components. You will notice that there are three panels on chart No. 3.

(Chart No. 3 follows:)

CHART 3

Composition of Federal Payments



Mr. SCHULTZE. The bottom two panels represent the administrative budget, broken between national defense, veterans, and interest in one panel, and all other administrative budget expenditures in the second panel. The third panel show the trust funds.

You will also notice that Vietnam is specially broken out in here in 1965-67 to show you the impact of Vietnam on this budget.

There are two points I would like to make about this particular chart. First, expenditures for national defense, veterans, and interest may be thought of as the cost of providing for our security currently and paying for past wars. About two-thirds of the national debt was accumulated during World War II. Consequently, if we take two-thirds of our interest payments as a rough measure of the war-related amount, and add expenditures for national defense and veterans benefits, you find that the cost of current defense and paying for past wars accounts for 66 percent of the administrative budget in 1967 and 52 percent of the total cash budget.

The second point I would like to make is that the area of Federal expenditures which is rising the most rapidly is the area outside of the administrative budget, namely, the social security and other trust funds. In fiscal year 1967 the expenditures from these trust funds are estimated to be \$38 billion, of which \$26.4 billion is for social security, including medicare, and another \$4.1 billion is for the highway trust fund. So, about four-fifths of these trust fund expenditures are for social security and highways. The \$38 billion in 1967 should be compared to about \$13 billion 10 years ago in 1957. In other words, expenditures from the trust funds here tripled in one decade. The trust funds are all self-financed, mainly through special taxes, and are roughly tripling between 1957 and 1967.

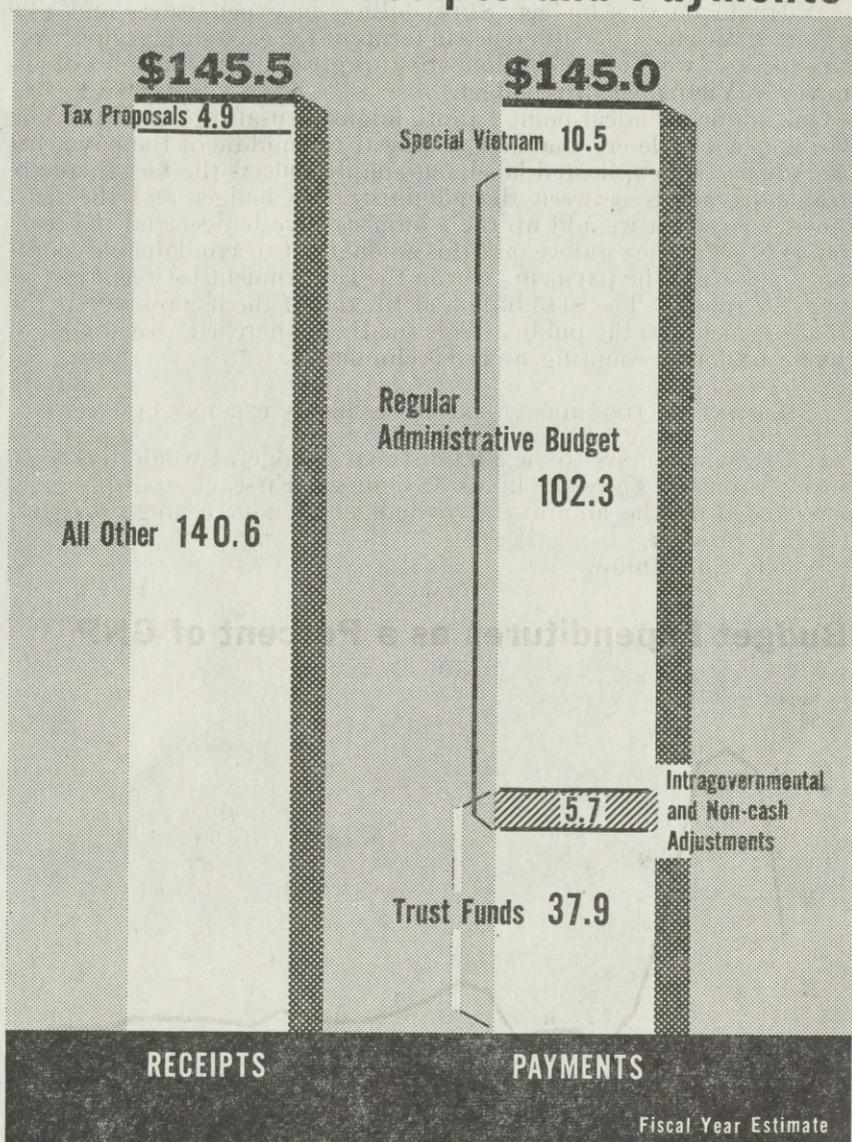
FEDERAL RECEIPTS AND PAYMENTS, 1967

One final perspective on the cash budget is provided in chart No. 4, which shows the estimated expenditures and receipts in 1967. (Chart No. 4 follows:)



CHART 4

1967 Federal Receipts and Payments



Mr. SCHULTZE. Recalling the point I made earlier, first, the total receipts of \$145.5 billion include \$4.9 billion as the yield from the tax measures which the President has proposed. This amount against the \$145.0 billion of total expenditures results in a surplus of \$500 million. Of the \$145 billion, \$10½ billion is for the special cost of Vietnam.

To repeat the point I made earlier, if you subtract from both sides the impact of Vietnam on this budget, or at least the immediate impact of Vietnam on this budget, \$10½ billion in expenditures and \$4.9 billion in revenues, the difference in terms of the excess of receipts over expenditures would be \$6 billion. So this gives again some idea of the impact of Vietnam on this budget.

One minor technical point I think might be useful to explain: You will notice a little crosshatched area near the middle of the payments bar. It has a complicated label, but simply reflects the fact there are sizable payments between the administrative budget and the trust funds. So when we add up the administrative budget and the trust funds to get to the total we take this amount out to avoid double counting. These are the payments within the Government between the two kinds of funds. The \$145 billion at the top of the bar represents the total payments to the public. This small crosshatched area would, of course, be double counting, and so is eliminated.

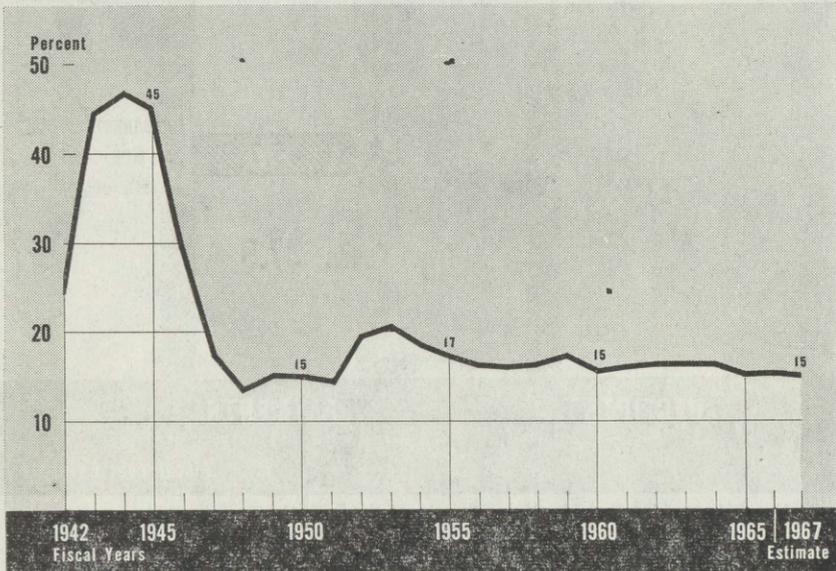
ADMINISTRATIVE BUDGET EXPENDITURES AS PERCENT OF GNP

If I may now move to the administrative budget, I would like to go through some of the same kinds of figures. First, chart No. 5 gives perspective on the administrative budget as a percentage of gross national product.

(Chart No. 5 follows:)

CHART 5

Budget Expenditures as a Percent of GNP



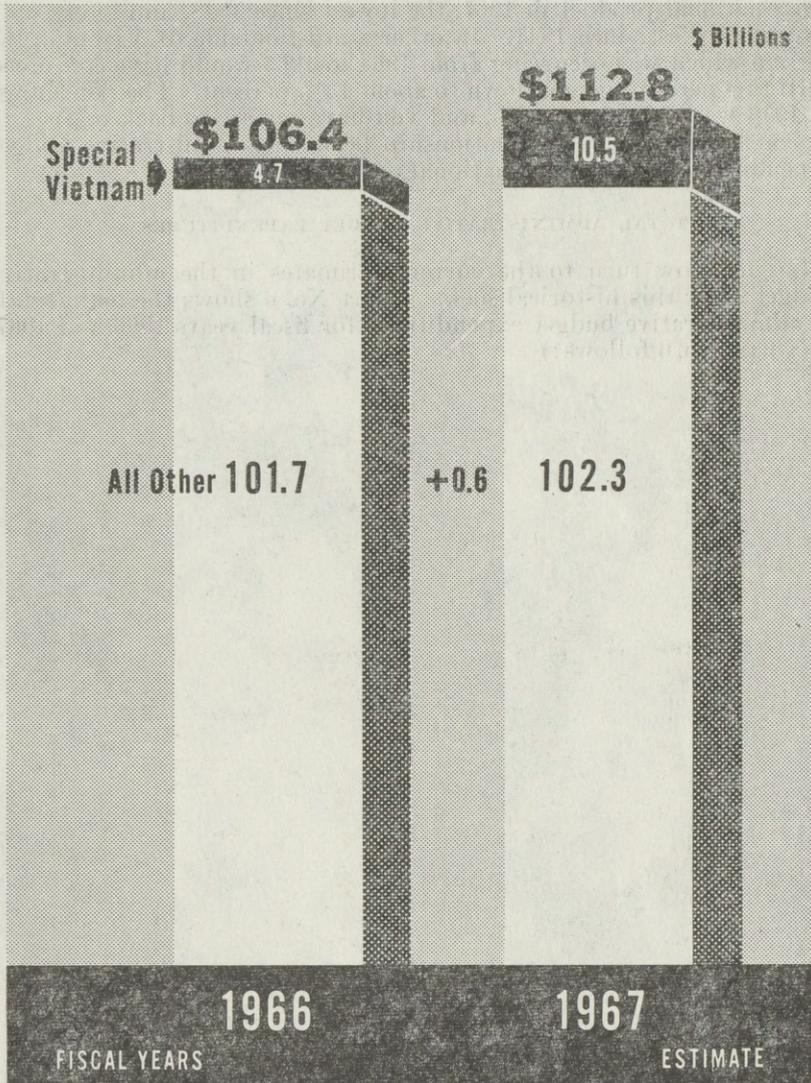
Mr. SCHULTZE. As the chart shows, administrative budget expenditures in recent years have been in the neighborhood of 15 percent of the gross national product, with a gentle downward trend, interrupted by some small up and down movement since Korea. You will notice that a fairly sharp downward trend took place from 1964 to 1965 and then the line flattens out from 1965 to 1967. Again, this is the impact of Vietnam. If we take from the administrative budget the cost of the buildup in Vietnam, the total would drop to some 13½ percent of the gross national product in 1967, the lowest since 1948, and along with 1948 the lowest since 1941. In other words, outside of Vietnam, the decline which was occurring from 1964 to 1965 would have continued until this percentage got down to about 13½ percent. The percentage in 1948 was also about 13½, and you have got to go back to 1941 to find a lower percentage relationship between administrative budget expenditures and the gross national product.

TOTAL ADMINISTRATIVE BUDGET EXPENDITURES

Let me now turn to the current estimates in the administrative budget after this historical look. Chart No. 6 shows the main totals of administrative budget expenditures for fiscal years 1966 and 1967. (Chart No. 6 follows:)

CHART 6

1966-1967 Total Budget Expenditures



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Mr. SCHULTZE. In fiscal year 1966 total expenditures are estimated at \$106.4 billion, of which \$4.7 billion represents the cost of our buildup in Vietnam, and \$101.7 billion the remainder of the Government. In 1967 the total will increase from \$106.4 billion to \$112.8 billion, of which \$10.5 billion is the estimated cost of the buildup of our operations in Vietnam, and the \$102.3 billion represents the cost of running the Federal Government outside of the special Vietnam expenditures.

Let me very briefly indicate what goes into the Vietnam expenditure estimates, as shown in the black portions of the chart. Essentially, they reflect the cost of our expanded Vietnam operations, including the increase in our forces necessary to support operations in Vietnam, and ready to respond elsewhere. They represent the buildup, not the full cost of Vietnam, because even in 1962, 1963, and 1964, of course, we were carrying on operations in Vietnam. These estimates represent only the added costs, basically, since this time last year and are the incremental financial impact of our operation in Vietnam, taking into account all of the personnel, operations and maintenance, and equipment costs for building our forces up and for providing for combat attrition in the case of equipment, ammunition, aircraft, and the like.

CHANGES IN ADMINISTRATIVE BUDGET EXPENDITURES

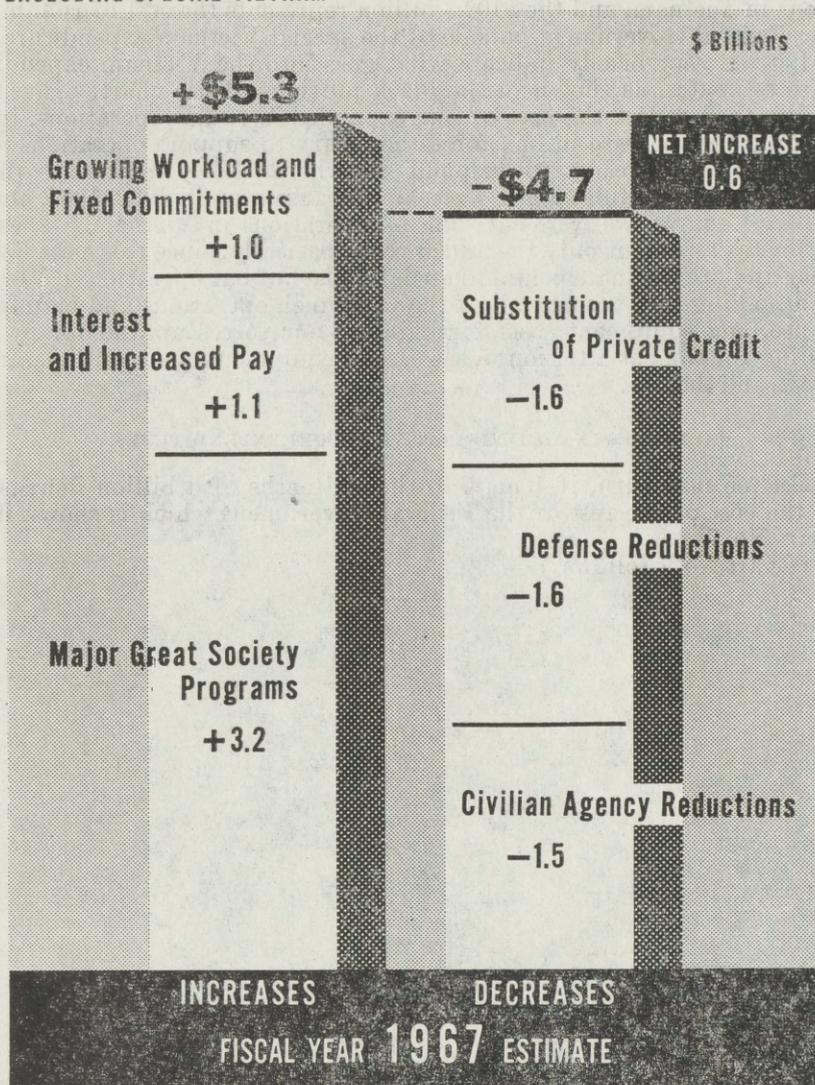
Let me now turn, if I may, to the six-tenths of a billion increase in the cost of the rest of the Federal Government which is shown in chart No. 7.

(Chart No. 7 follows:)

CHART 7

Changes in Budget Expenditures 1966-1967

EXCLUDING SPECIAL VIETNAM



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Mr. SCHULTZE. This \$0.6 billion is the rise in expenditures for running all programs except special Vietnam operations—that is, the increase from \$101.7 billion in 1966 to \$102.3 billion in 1967. This increase of six-tenths of a billion was not gotten at simply by an arbitrary fiat leveling every Federal program. Rather, it is the result of some substantial reductions offset by some substantial increases. The total reductions turned out to be slightly less than the total increases,

giving us this net increase of \$600 million in the Federal budget outside of Vietnam.

Let me first take a run at the reductions. Starting from the bottom of the bar on the right-hand side of the chart, there are \$1.5 billion of decreases in civilian agency programs. In this billion and a half the major reductions are as follows: \$300 million out of the space program, a \$300 million reduction from 1966 to 1967; a \$300 million reduction in agricultural programs from 1966 to 1967; a \$100 million reduction in the expenditures of the Atomic Energy Commission; and a \$100 million reduction in the postal deficit, primarily on account of proposals for increased parcel post rates and some other measures of similar nature.

Mr. MAHON. Does the postal deficit reduction item depend upon legislative action by Congress?

Mr. SCHULTZE. It does. Basically, action is needed because there are size and weight limit changes involved.

The food-for-peace program will be down \$200 million, but I want to emphasize that the shipment of commodities under the food-for-peace program will be higher. Under the Farm Act of 1965, with its emphasis on direct payments, support prices, and prices at which food for peace will be picked up are lower. So even though shipments are higher, total expenditures for food for peace will be down.

The reductions I have cited add up to \$1 billion of the billion and a half. The other \$500 million is scattered throughout the Federal programs. So, reductions across the board in various civilian Federal programs add to a billion and a half dollars.

In the Department of Defense, outside of Vietnam, there is a reduction of \$1.6 billion in expenditures from fiscal year 1966 to fiscal year 1967, influenced by the deferral of some construction and the closedown of a number of bases. I want to hasten to add not all of that \$1.6 billion, of course, is deferral of construction and base close-downs, but they form an important part.

Finally, a \$1.6 billion reduction from year to year results from the substitution in a number of programs, of private for public credit, in two ways:

First, conversion of certain direct Federal lending programs—where the Federal budget includes as expenditures the whole loan—conversion of such programs to guarantee programs where the private lending system makes the loan and the Federal Government simply guarantees it. This reduces Federal expenditures.

Secondly, increased sale of federally owned financial assets, with the resulting receipts to be credited against expenditures. Those two combined will total \$1.6 billion, higher in 1967 than in 1966. The sale of federally owned loans, mortgages, and so forth, to the private sector of the economy will total \$4.7 billion, continuing and accelerating a policy which has been blessed by the last three Presidents, starting with President Eisenhower and continuing with President Kennedy and President Johnson. Some of this increased sale of assets will depend upon congressional action for the appropriate authorization to proceed with what we regard as very efficient techniques of selling those assets.

Having taken a look at the reductions, let us now go over the increases as shown in the bar on the left-hand side of the chart. As you can see, they slightly more than offset the reductions.

First, in the major Great Society programs of the Federal Government, primarily in education, health, and the war on poverty, there will be expenditure increases of some \$3.2 billion. Next, the increased cost of interest adds about \$750 million to the budget, almost all of it due to higher interest rates; very little of it is due to an increment in the Federal debt, since the Federal debt will go up very little in 1967. Last year's civilian and military pay increases will add \$375 million in 1967 over the amount added in 1966. In other words, last year's pay increase—the 1965 action on civilian and military pay—was in effect for only part of the current fiscal year. It will be in effect for the full year in 1967, and that adds \$375 million.

I might digress for a minute to give you some idea of the total impact of the 1965 pay raises on the budget. Civilian and military pay, taken together, as provided in the 1965 act, add a total of over \$1.7 billion to the budget in 1967. In other words, the budget has in it somewhat more than \$1.7 billion to pay for the two pay increases together. The President's own recommendations would have added slightly over a billion dollars, so there is \$700 million additional in the budget because the pay raise finally enacted was a good bit higher than what was originally proposed.

Finally, another billion dollars worth of expenditure increases have to be made to meet growing workloads and fixed commitments. Let me make the obvious point. Of course, with the population, growing by roughly 2½ million a year, and the economy growing about 3 percent per capita in real terms each year, there are clearly substantial additional demands placed on the Federal Government, which in most cases have to be met. In some cases, meeting these demands can be discretionary, but in most cases the basic laws require that they be met. For example, in the past decade the volume of mail has gone up by 32 percent, the number of visits to our national parks has gone up about 110 percent, the number of children served by school lunch programs has gone up 85 percent. In the past year alone—just taking 1 year rather than the whole decade—the number of miles surveyed by the Coast and Geodetic Survey will go up to 19 percent. The number of participants in the food stamp program will go up 44 percent. Passport applications will rise 10 percent, plane travel 10 percent. And, of course, the Federal Government in the area of plane travel is heavily involved with tower controllers at airports, with safety navigational aids, and the like.

I could list examples at some length, but I think the major point is clear—that there are substantial increases in workloads.

One of my predecessors, Mr. Stans, when he was Director of the Budget, issued a report in January 1961 which was an outlook for Federal expenditures in the next decade. That report and accompanying comments by Mr. Stans, I think, quite correctly caught the point that rising population and income, and the resulting growing workloads, tend to raise the Federal budget by \$2–\$2½ billion a year. Actually, in all modesty, we think we have done a pretty good job in finding reductions of some \$4.7 billion, almost but not quite large enough to completely pay for these increases, both in pushing ahead with what the President considers vitally needed domestic programs—and the Congress concurred last year by enacting those programs, and made substantial contributions and changes to the programs themselves—and in providing for interest and pay and for greater workloads.

Mr. MAHON. Mr. Director, it would probably improve this record if you would put the various increases and decreases evidenced by chart 7 in appropriate tabular form; it would be easier to read and to see them quickly.

Mr. SCHULTZE. We can do that.
(The information requested follows:)

Expenditure decreases:		<i>Billions</i>
Civilian agencies:		
Space programs	-----	\$0.3
Agriculture:		
Food for Peace	-----	.2
Other	-----	.3
Atomic Energy Commission	-----	.1
Parcel post rate increase	-----	.1
All other	-----	.5
Total	-----	1.5
Department of Defense (excluding special Vietnam costs)	-----	1.6
Substitution of private credit	-----	1.6
Total decreases	-----	4.7
<hr/>		
Expenditure increases:		
Major Great Society programs	-----	3.2
Interest	-----	.7
Civilian and military pay	-----	.4
Unavoidable workload and fixed commitments	-----	1.0
Total increases	-----	5.3
Net increase	-----	.6

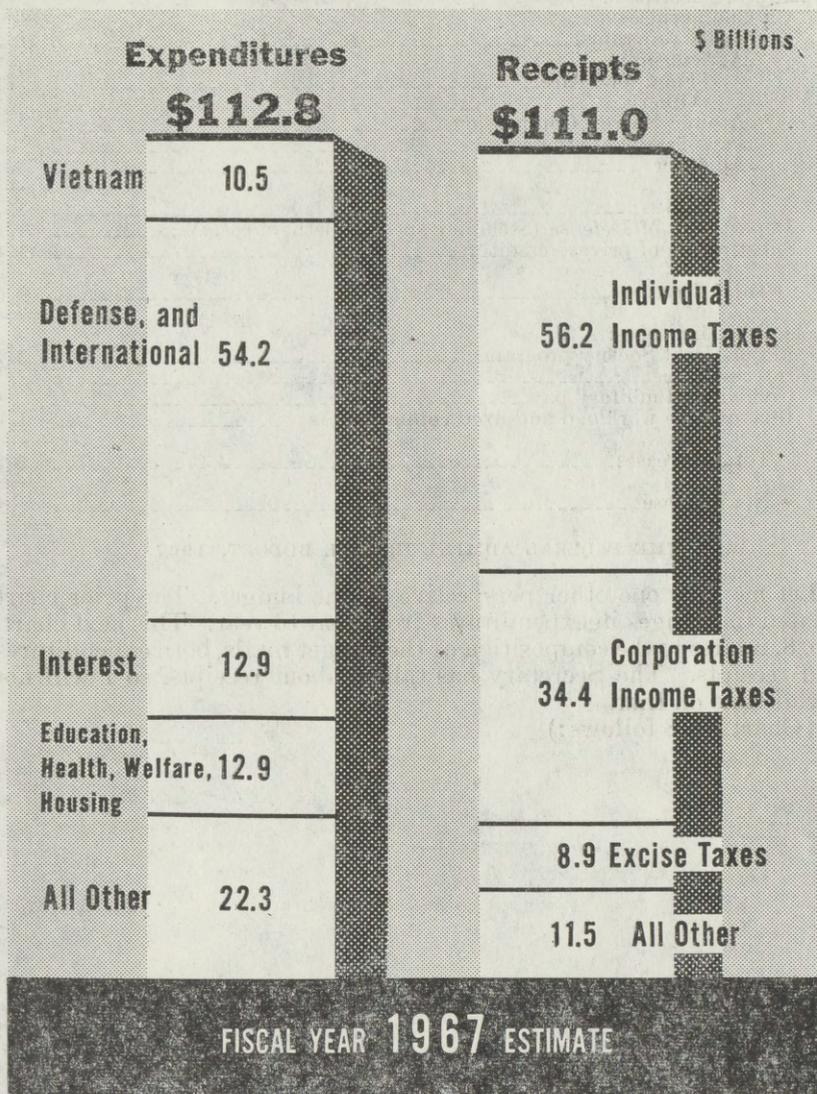
THE FEDERAL ADMINISTRATIVE BUDGET, 1967

Let me give one other perspective on the budget. The prior chart related to changes in expenditures from year to year. This next chart, No. 8, relates to the composition of the budget totals, both expenditures and receipts. The Secretary has talked about receipts, so I will not spend time on that.

(Chart No. 8 follows:)

CHART 8

The FEDERAL BUDGET



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Mr. SCHULTZE. Of the \$112.8 billion in expenditures, as I indicated earlier, \$10.5 billion is for Vietnam and \$54.2 billion is for other defense and international activities. Within that figure, by the way, the amount for international activities is \$4 billion and the amount for defense is \$50.2 billion. The total of interest is \$12.9 billion, leaving for the remaining functions of the Federal Government about \$35 billion, of which, rounded, \$13 billion is in the major new areas of emphasis—in education, health, welfare, and housing—and \$22.3 billion is for all other activities of the Federal Government. This “all other” activities covered within the \$22.3 billion includes such functions as space, veterans, natural resources, agriculture, commerce, transportation, and general government. This gives some idea of the composition of the budget.

Let me make two other points with respect to this chart. First, you will note, as both the Secretary and I have mentioned, that the deficit in the administrative budget is estimated at \$1.8 billion in 1967. If the President, instead of making the reductions indicated on the chart I just showed you, had added the \$2½–\$3 billion to the budget which many have predicted is the necessary increase and had not recommended his tax proposals, there would have been a deficit of around \$9 billion. So the combination of the tax proposals and the expenditure reductions made it possible to reduce a \$9 billion problem to a \$1.8 billion problem.

The second point is, in the administrative budget, if we take out both Vietnam on the expenditure side and the \$4.8 billion of the President’s tax proposals on the receipt side, the net would be fairly significant surplus, in the \$3–\$4 billion range.

One final point, which is not on any chart, but this is about the best place to throw it in: The \$112.8 billion of expenditures represents some \$20 billion less than what the agencies of the Federal Government requested of the President—some \$20 billion less, which is, as far as I know, the largest reduction that we have had in recent years.

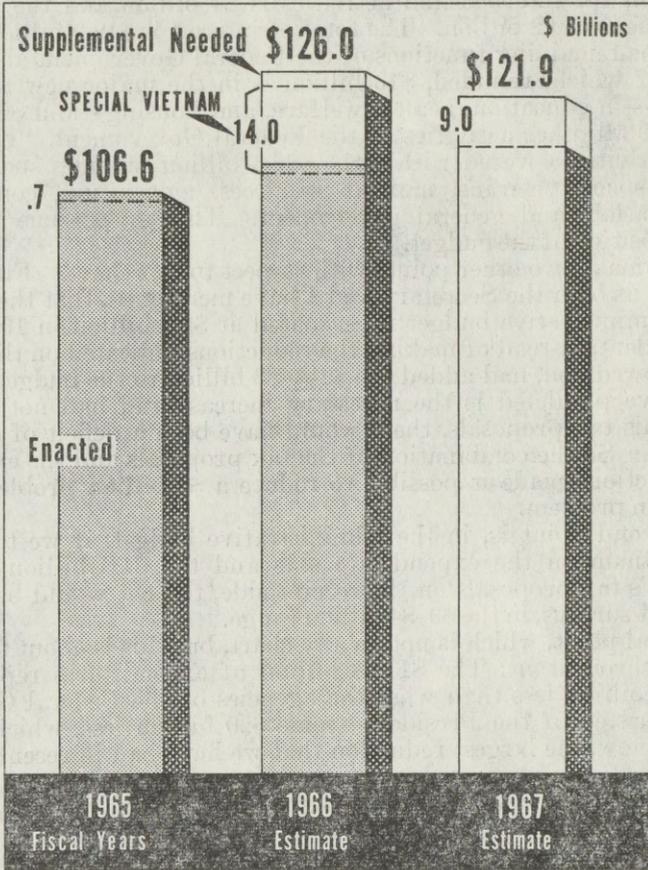
NEW OBLIGATIONAL AUTHORITY BUDGET

Now I will turn to a chart that is of great interest to this committee in particular. This is Chart No. 9 which covers new obligational authority, that is not the same as appropriations, of course, but for shorthand, if I switch back and forth from appropriations to new obligational authority, I am sure I will be pardoned.

(Chart No. 9 follows:)

CHART 9

New Obligational Authority



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Mr. MAHON. So that the record will be clear on the point, that "new obligational authority" is not necessarily, in all instances, exactly synonymous with "new appropriations," you might supply an explanatory note.

Mr. SCHULTZE. I will do that.

(The following was provided for the record:)

New obligational authority represents additional authorizations becoming available during a year for Government agencies to enter into obligations requiring the immediate or future payment of money. It usually takes the form of appropriations which permit obligations to be incurred and expenditures to be made. However, other forms of new obligational authority are sometimes granted by Congress. These include:

1. Contract authorizations permit obligations in advance of actual appropriations by Congress, but require an appropriation to liquidate in order to permit expenditures to pay the obligations.

2. Authorizations to spend debt receipts permit the use of borrowed money to incur obligations and make expenditures. Authority to use Treasury borrowing

is called an authorization to spend public debt receipts; authority to borrow directly from private enterprise, granted only to certain Government corporations, is called an authorization to spend corporate debt receipts.

3. Reappropriations or reauthorizations reflect congressional action to permit the use of funds previously authorized, but which would otherwise expire since they were not used during the time period in which such funds were originally made available.

NOTE.—“New obligational authority,” however, excludes “Appropriations” made to liquidate obligations incurred under previous obligating authority that did not also carry the appropriation to pay it.

Mr. SCHULTZE. For 1965, new obligational authority of \$106.6 billion was actually enacted. For 1966, amounts enacted plus requests for supplementals total \$126 billion. Of that \$126 billion, \$15.8 billion represents supplementals. The rest has already been enacted by the Congress.

Another important aspect of this \$126 billion is that \$14 billion of it represents the added military costs of Vietnam—the appropriation side of the military costs of Vietnam—\$12.3 billion in the supplemental which the Congress is currently considering and \$1.7 billion in the amendment to the defense budget enacted last August; \$12.3 plus \$1.7 gives the \$14 billion.

Let me go back to the \$15.8 billion in total supplemental requests for 1966 included in the President’s budget. As I just indicated, \$12.3 billion of that \$15.8 billion is for defense costs in Vietnam. Another \$400 million is for economic assistance primarily for Vietnam. That leaves \$3.1 billion of the supplementals outside of Vietnam.

I might run down the major supplementals involved in this \$3.1 billion.

Approximately \$1.2 billion—this is not yet exactly set because we are still working with the agencies on it—but approximately \$1.2 billion is for pay, to reflect the cost of the military and civilian pay acts enacted in 1965. Obviously, that will not cover the full cost of the pay increases. We have required the agencies to absorb a good proportion of it. But the \$1.2 billion represents roughly what the supplemental for pay will have to be.

Another \$1.1 billion supplemental is for the Department of Health, Education, and Welfare, for three major purposes: First, an appropriation of about \$370 million for the supplemental medical and hospital insurance programs under the medicare bill enacted last year; second, \$400 million additional for public assistance, which represents a restoration of some cuts made by the Congress last year plus an additional amount because our own estimates were somewhat too low last year; third, another \$200 million, roughly, is for the elementary and secondary education program under the 1965 act. In this instance the Congress reduced the appropriations for that program but included language which allowed the Department to go ahead and meet State allotments; hence we have no option but to come up with the additional supplemental request.

Finally, other sizable supplementals include about \$300 million to cover additional costs of veterans’ compensation and pensions and \$75 million for the disaster relief program.

Turning now to fiscal 1967, we have total new obligational authority of \$121.9 billion, of which \$9 billion is the estimated special Vietnam component, leaving \$112.9 billion for all other activities outside of Vietnam. Although I don’t have it on the chart, you might find it

interesting to break this \$112.9 billion of recommended new obligational authority into three components: \$51.1 billion for defense, including military assistance outside of Vietnam; \$12.9 billion for interest; \$48.9 billion for all of the rest of the Government. This is the essential breakdown here—\$51 billion for defense, roughly \$13 billion for interest, roughly \$49 billion for all other governmental activities.

Mr. MAHON. Here again, Mr. Director, a tabular listing of these supplementals in some reasonable breakout form would perhaps be desirable for more ready reference.

Mr. SCHULTZE. We will be glad to do that.

(The information follows:)

Estimates of fiscal 1966 supplementals in fiscal 1967 budget

(In billions of dollars)

Defense, military (special Vietnam costs).....	12.3
Economic assistance.....	.4
Civilian and military pay increases.....	1.2
Health, Education, and Welfare:	
Contingency for supplementary medical insurance.....	0.4
Public assistance grants.....	.4
Elementary and secondary education.....	.2
Other.....	.1
Veterans compensation and pensions.....	1.1
Disaster relief.....	.3
All other.....	.4
Total 1966 supplementals.....	15.8

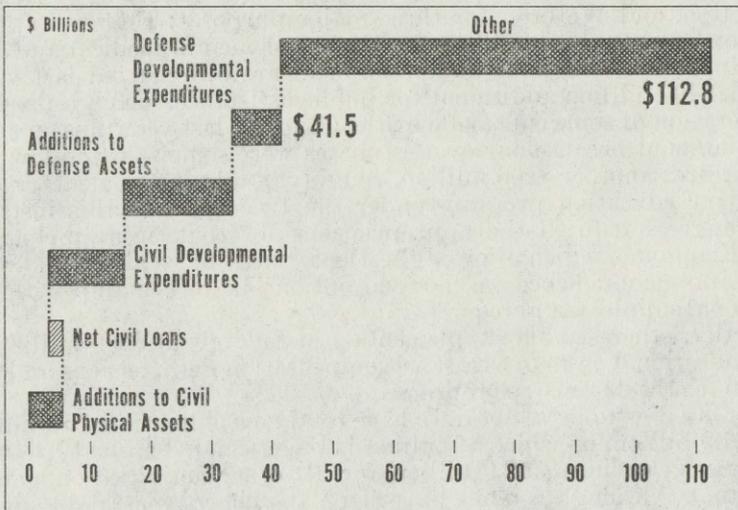
INVESTMENT EXPENDITURES IN 1967 BUDGET

Mr. SCHULTZE. I would now like to move to some other charts which attempt to show some special aspects of the budget. I would like first to concentrate on a very important aspect of the budget; namely, the investment expenditures contained in the administrative budget.

(Chart No. 10 follows:)

CHART 10

Investment Expenditures in the 1967 Budget



Mr. SCHULTZE. Normally, in business budgets, investment outlays are not included within income and outgo. They are usually shown in a capital statement. But in the Federal Government we do—and I think, by the way, quite properly do—include investment expenditures in our general purpose income and outgo statements; namely, the administrative budget and consolidated cash budget statements.

Investment essentially, as you know, represents outlays made now to yield increased productivity and other benefits spread out over a period of time. Normally we tend to think of investments in terms of brick and mortar, of investments in physical assets and equipment. But, as a practical matter, the U.S. Government, and governments in general, undertake other very important investment expenditures that are not brick and mortar; namely, research and development, and investment in human beings, primarily in the area of education, training, and health. These have substantial longrun payoffs.

So we really have three kinds of investment: First, there is investment in physical assets and second, there are loans; both of these are typically included in business statements. Then there is investment in research and in development of human resources, as in the case of education and the like. In chart No. 10 we attempt to show these various investment components.

First, the Federal Government in 1967 will spend \$5.4 billion for additions to civil physical assets. These essentially are of two types: first, federally owned assets, as in the case of water resource projects, ADP equipment, and other directly owned assets; second, contributions or grants-in-aid to State and local governments or to private interests for higher education facilities, hospitals, waste treatment plants, farm improvements, and the like, which add, with Federal financing, to civil State, local, and private physical assets.

Next, in 1967 there will be a net reduction in the portfolio of loans owned by the Federal Government, because receipts from normal repayments plus our planned sales will exceed expenditures on new loans, giving us a reduction of some \$2.3 billion in the portfolio held by the Federal Government.

Next, the chart shows civilian developmental expenditures, which are not investments in the typical business sense of the word, but are surely investments in the national sense of the word. These civilian developmental expenditures total \$12.5 billion including \$5.3 billion for education, training, and health; \$7 billion for civilian research and development; and about \$200 million for engineering and natural resource surveys.

By the way, it is interesting to note that a number of recent studies on the causes of productivity gains in the United States have indicated that emphasis on education and training, on health, and on other investments in human resources, has added more to our productivity than investment in physical assets. Education and training alone historically has accounted for more than a third of the physical growth in the United States. We think it proper that it be included in developmental expenditures in terms of investment, and we do so.

Finally, we have two other major investments of a different kind; namely, investment in defense assets, both physical and developmental. The budget includes \$17.9 billion for defense assets and \$8.1 billion for defense research and development. Putting all of these together,

civilian physical assets plus developmental expenditures, and defense physical assets plus developmental expenditures, we get \$41.5 billion out of \$112.8 billion of total Federal expenditures.

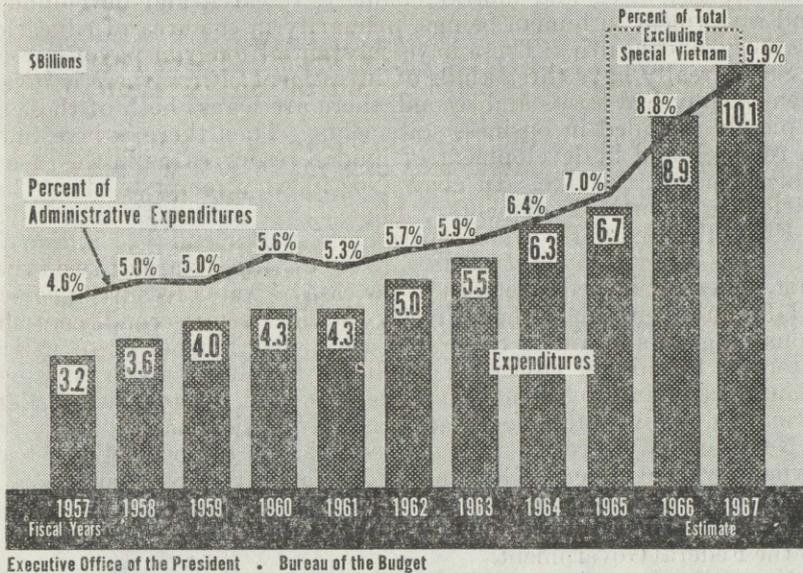
BUDGET EXPENDITURES—AID TO STATE AND LOCAL GOVERNMENTS

Another important chart is one which shows the growth in Federal budget expenditures for aids to State and local governments. This is Chart No. 11.

(Chart No. 11 follows:)

CHART 11

Budget Expenditures for Aid to State and Local Governments



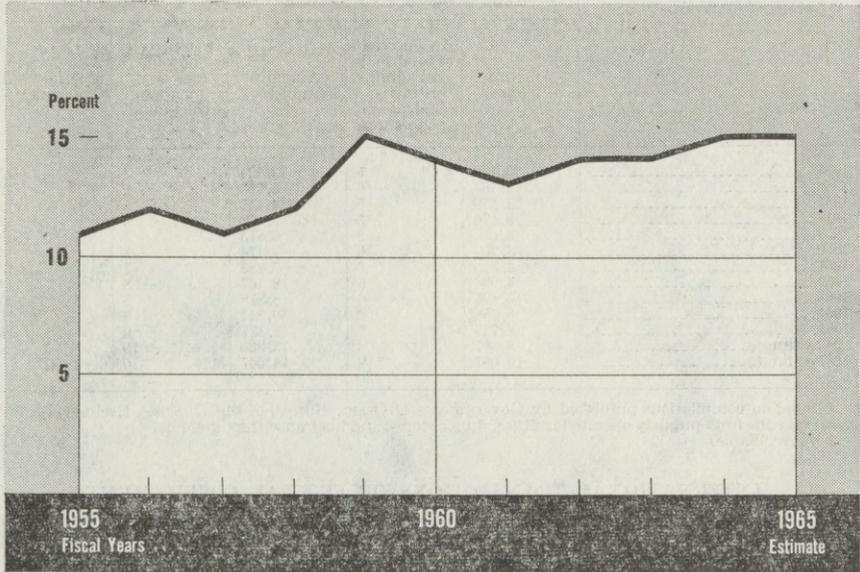
Mr. SCHULTZE. You will note that not only are these expenditures rising absolutely but they are rising as a percentage of the total Federal budget. So that, excluding Vietnam, which is a special situation, almost 10 percent of the Federal budget will go for aids to States and local governments in fiscal year 1967 compared to only 4½ percent a decade ago. About 60 percent of the increase in Federal expenditures since 1965—outside of Vietnam—will represent increases in aids to State and local governments.

FEDERAL AID AS PERCENT OF STATE AND LOCAL REVENUES

One other aspect of intergovernmental fiscal relationships is worth noting.

(Chart No. 12 follows:)

CHART 12

Total Federal Aid as a Percent of State and Local Revenues

Executive Office of The President • Bureau of The Budget

Mr. SCHULTZE. Even though aids to States and local governments are increasing as a percentage of the Federal budget, as a percentage of total revenues of State and local governments, there has not been any long-term increase in the last 6 or 7 years. Since 1958, first we have an increase, then a decline, and then another increase. What this reflects, of course, is the fact that expenditures of the Federal Government for grants and other aids are rising as a percentage of our own total expenditures, but that State and local revenues are growing much faster than the Federal budget in total. Therefore, when the grants are shown as a component percentage of State and local revenues it is fairly level reflecting the fact that State and local activities are growing more rapidly than Federal activities.

The following table provides some summary data covering this interesting aspect of Federal finances:

Federal aid expenditures in relation to total Federal expenditures and to State-local revenue

	Net budget expenditures for aid to State and local governments		Total expenditures for aid to State and local governments, budget and trust accounts		
	Amount (millions)	As a percent of total Federal administrative budget expenditures	Amount (millions)	As a percent of total cash payments to the public	As a percent of State-local revenue ¹
1955.....	\$3,124	5	\$3,124	4	11
1956.....	3,753	6	3,753	5	12
1957.....	3,159	5	4,111	5	11
1958.....	3,576	5	5,072	6	12
1959.....	4,012	5	6,813	7	15
1960.....	4,259	6	7,174	8	14
1961.....	4,326	5	7,283	7	13
1962.....	4,966	6	8,167	8	14
1963.....	5,491	6	8,818	8	14
1964.....	6,288	6	10,314	9	15
1965.....	6,737	7	11,127	9	15
1966 estimate.....	8,907	8	13,300	10	(²)
1967 estimate.....	10,097	9	14,647	10	(²)

¹ Based on compilations published by Governments Division, Bureau of the Census. Excludes State-local revenue from publicly operated utilities, liquor stores, and insurance trust systems.

² Not available.

INTERNATIONAL TRANSACTIONS OF FEDERAL GOVERNMENT

Another point of some interest to this committee—shown on chart No. 13—is the summary of international transactions of the Federal Government.

(Chart No. 13 follows:)

CHART 13.—*Summary of international transactions of the Federal Government*

[In millions of dollars]

	1963	1964	1965	1966 estimate	1967 estimate
Payments.....	4,950	4,438	4,235	4,820	5,362
Receipts ¹	2,144	2,038	1,992	2,083	2,440
Excess of payments.....	2,803	2,400	2,243	2,737	2,922

¹ Not including special transactions.

Mr. SCHULTZE. In 1962, as interest and concern about our balance-of-payments problem grew, the Budget Bureau inaugurated a set of reporting requirements and controls on international expenditures of the Federal Government itself. In turn, the numbers reported by the various Federal agencies and the issues raised in examining these numbers became important matters for discussion by the Balance of Payments Cabinet Committee headed by Secretary Fowler. Notice on the chart the substantial drop of some 20 percent from 1963 to 1965 in the excess of payments over receipts. Net outflow dropped from \$2.8 billion to \$2.2 billion as a result of various actions, such as channeling a lot more of our military and economic assistance expenditures back to the United States and vigorously examining all offices and activities abroad; by the way, this 20-percent drop occurred despite substantial

increases in wages and prices abroad. From 1965 to 1967 payments will again rise quite substantially. Receipts will also rise but not as much. This will give us about a \$680 million increase in net outflow. However, more than all of that increase is accounted for by what we are having to do in Vietnam. Without Vietnam, net payments could have continued to decline, although at a somewhat slower rate than in the past.

THE NATION'S REAL OUTPUT AND USE OF IT

Two other charts and then I am through.
(Charts Nos. 14 and 15 follow:)

CHART 14

The Nation's Real Output: Public and Private Demand

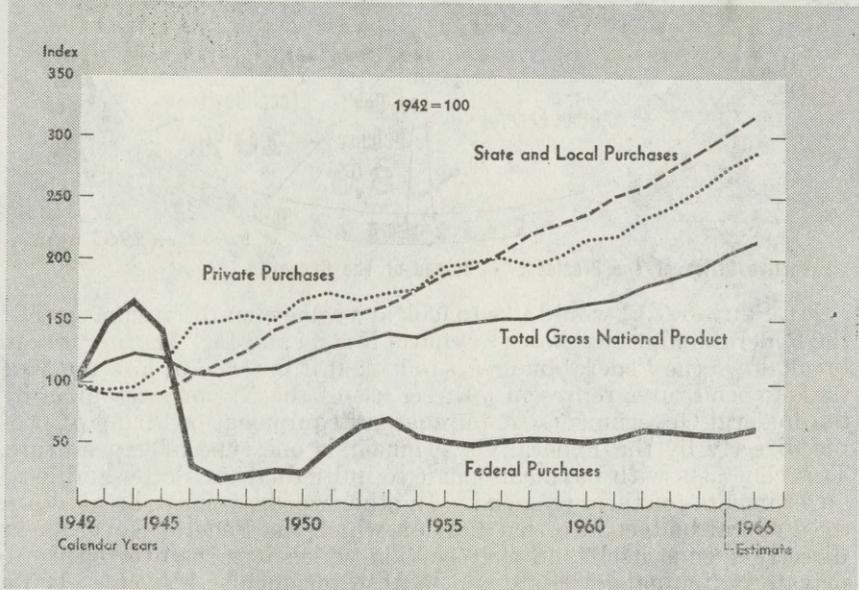
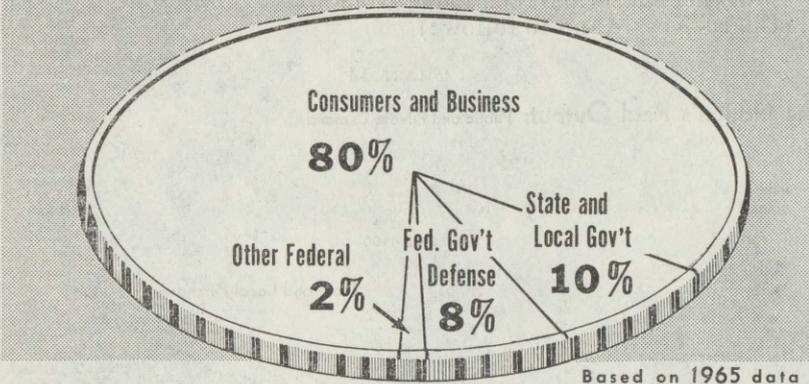


CHART 15

How We Use Our NATIONAL OUTPUT OF GOODS AND SERVICES



Executive Office of The President • Bureau of The Budget

Mr. SCHULTZE. I would like to look at a somewhat different aspect of the Federal budget, as shown by charts Nos. 14 and 15. Another way to break down the Federal budget is to look at it in terms of how much of these expenditures represent a direct use of the Nation's resources by the Federal Government. A purchase of equipment or hiring of people directly by the Federal Government is one type of expenditure. This contrasts with payments made to individuals or States and local governments for them to spend. In other words, you can break down the Federal budget into that portion which the Federal Government directly spends itself and that portion which it turns over either to private individuals or State and local governments to spend. If we concentrate on that part of the Federal budget which represents a direct use of the Nation's resources in terms of purchases of goods and services by the Federal Government, you can see in chart No. 14—if we take out price increases—that the amount of the real output of the economy taken by the Federal Government for its own direct use has been practically unchanged for the last 15 years.

During this period, the total use of resources, the gross national product, rises substantially, and the percentage increases in private purchases and in State and local purchases rises even more rapidly. Now, of course, particularly in the case of State and local purchases, a significant, although not huge, part of that increase has been financed by the Federal budget, but this counts in the State-local sector rather than showing up as a "take" of the Nation's output by the Federal Government. The direct Federal "take" has not been in relative terms unchanged over the last 15 years.

Let me look at this one other way, as shown on chart No. 15. We can break down the total gross national product into where it goes;

80 percent of it goes to consumers and business firms. Now, some part of what consumers buy which is included in this 80 percent is bought with funds they obtain from the Federal Government—for example, social security checks. But 80 percent of the Nation's output is bought by consumers and business. Another 10 percent is bought by States and local governments, and again some small part of that 10 percent reflects use of funds that the Federal Government has contributed. Still another 10 percent is bought by the Federal Government, of which 8 percent is for defense and 2 percent is for other Federal direct purchases of goods and services.

Mr. Chairman, I have two charts on the public debt. They turn out to be the same two charts the Secretary used and I see no need for me to repeat his comments.

That concludes my remarks.

Mr. MAHON. Mr. Schultze, thank you for a brilliant job of presenting what is a rather complicated matter.

Mr. Secretary, you and the Director have performed a service to the committee and to the Congress in the presentations which you have made.

I think it is fair to say that you have probably put your best foot forward in making these explanations, and this would be expected, of course.

THE \$100 BILLION BUDGET MARK

For a number of years recently, an effort was made to prevent the administrative expenditure budget from going above \$100 billion.

But as a matter of fact, for each of the past 4 years Congress has appropriated—I am speaking of appropriations, not expenditures—more than \$100 billion, and it was inevitable that the \$100 billion barrier mark, so to speak, eventually would be broken and we would go above \$100 billion in administrative budget expenditures.

Further on the matter of the new obligational authority budget requests, which roughly we may call the appropriations budget though the two terms are not exactly the same, I think we might well include a supporting table of figures from remarks on the budget which I made on the floor on January 24. This shows that, in this respect, Congress crossed the \$100 billion mark 4 years ago; expenditures are just this current fiscal year 1966 catching up, as of course was inevitable and as every knowledgeable person knew.

(The table follows:)

New obligational authority—Defense and nondefense

[Administrative budget basis, rounded amounts used]

Fiscal year	National defense functions	Other than national defense	Total new obligational authority
1953 enacted (Korean war year)-----	\$57,298,000,000	\$23,010,000,000	\$80,308,000,000
1954 enacted (1st post-Korean year)-----	39,471,000,000	23,294,000,000	62,765,000,000
1955 enacted-----	33,656,000,000	23,420,000,000	57,076,000,000
1956 enacted-----	35,903,000,000	27,295,000,000	63,198,000,000
1957 enacted-----	41,344,000,000	28,835,000,000	70,179,000,000
1958 enacted-----	40,448,000,000	35,897,000,000	76,345,000,000
1959 enacted-----	45,517,000,000	35,848,000,000	81,365,000,000
1960 enacted-----	44,761,000,000	34,813,000,000	79,574,000,000
1961 enacted-----	45,994,000,000	40,681,000,000	86,675,000,000
Increase in level, 1961 over 1954-----	+6,523,000,000	+17,387,000,000	+23,910,000,000
1962 enacted-----	52,414,000,000	40,448,000,000	92,862,000,000
1963 enacted-----	54,323,000,000	47,960,000,000	102,283,000,000
1964 enacted-----	53,762,000,000	47,341,000,000	101,103,000,000
1965 enacted-----	53,198,000,000	53,410,000,000	106,608,000,000
1966: Enacted in the last session-----	52,536,000,000	57,689,000,000	110,225,000,000
Proposed supplementals in current session-----	13,222,000,000	2,535,000,000	15,757,000,000
Total proposed, 1966-----	65,758,000,000	60,224,000,000	125,982,000,000
1967 total now proposed (as shown in 1967 budget)-----	62,205,000,000	59,699,000,000	121,904,000,000
Comparisons:			
1967 total proposed compared to 1966 inclusive of proposed 1966 supplementals-----	-3,553,000,000	-525,000,000	-4,078,000,000
1967 total proposed compared to 1965 enacted-----	+9,007,000,000	+6,289,000,000	+15,296,000,000
1967 total proposed compared to 1961 enacted-----	+16,211,000,000	+19,018,000,000	+35,229,000,000

NOTE.—Data in this table corresponds to the classification used in the 1967 budget. "National defense functions" include Department of Defense military functions, including foreign military assistance; Atomic Energy Commission; stockpiling of strategic and critical materials; Selective Service System; expansion of defense production; and civil defense and emergency preparedness activities.

Source: Budget documents.

NEW OBLIGATIONAL AUTHORITY—CONGRESSIONAL ACTION BUDGET

Mr. MAHON. It is unfortunate, in my opinion, that the emphasis in the annual budget presentations is almost exclusively on administrative budget expenditures rather than on the appropriations budget, or the new obligational authority requested, which is the budget on which the Congress takes action during the session. I think ways ought to be found to make clearer to all the significance of the appropriations budget in connection with the annual consideration of our fiscal affairs.

Of course, we seldom have occasion to deal in any depth with the cash budget which includes the trust funds as part of the whole picture.

PROPOSED REDUCTIONS IN CERTAIN GOING PROGRAMS

Mr. Director, it has been said and will be said that in an effort to squeeze these budget totals down as much as possible, and to make more room for some of the Great Society programs, you have cut some very popular programs—some going programs—back below the current level of operation, believing, or presuming, that Congress, because of the popularity of some of the programs, would be sorely tempted or pressured into restoring the budget reductions that are proposed in the new budget.

What would you say in response to such a suggestion?

I have in mind, for example, that for aid to impacted school areas, which is very popular with Congress, you have cut the request from \$347 million in the current year to \$183 million for fiscal 1967.

I talked to a Member only last week who said, "I am sorry, George, I just can't go along with the budget reduction in impacted aid to the schools."

In the school lunch program, you made a reduction from \$157 million allowed in fiscal 1966 to an appropriation estimate for fiscal 1967 of \$138 million. Well, here again you touch the people where it counts—you touch the children of the country.

In the special milk program, another sensitive program, you propose to reduce it from \$103 million to about \$21 million.

In the Rural Electrification Administration electric loan program, you make a reduction from about \$365 to \$220 million.

Of course, if Congress goes above the figures in the budget on any of these, the blame for this breaking of the budget line would have to be assigned to Congress and not the Executive.

I give these only as examples of what might fall within such a charge.

Many people were asked to comment about the budget when it was first submitted a week ago today. One man, in his response, said succinctly, "It is big enough."

Now, will you take the ball?

Mr. SCHULTZE. Let me make a couple points if I may, Mr. Mahon:

First, in my limited experience I find there are few, if any programs, in the budget that are not very popular with a number of people. Otherwise they would not be in there. Therefore if you look at the entire budget for programs to cut I literally have been amazed at how few, if any, unpopular programs there are. This is not intended as a criticism. It is simply the inevitable result of a democratic process.

There are some programs that a number of people consider, as we did in this case, to be running at a level which is higher than they need to be and hence can be cut back. But I can't think of any where this can be done without substantial pain. That is point No. 1.

Point No. 2 is that far from attempting to go through the entire budget and in some Machiavellian sense reducing those programs which we knew would be added back, we made recommendations to the President for reducing only those programs where we felt—and in many, although admittedly not all, cases—the agency concerned also felt, there was some reason to cut them back. However erroneous and benighted our opinions were, they were honest opinions that for various reasons these programs could profitably be reduced.

Let us take the case of the impacted area program, for example. If this reduction had been made several years ago when we did not have a billion and a half-odd dollars estimated to be spent on programs in elementary and secondary education your comments might have had much more validity. However, here is a program which has to be considered in the light of what the Federal Government is doing elsewhere to assist education.

It also has to be considered in the light of the fact that we did not simply arbitrarily cut back this program to zero by any means. We are proposing that each school district absorb in the case of so-called

B children whose parents work on Federal property but live on taxable property that the school district absorb the costs of educating a number of these children equal to 6 percent of the number of children in the school district. The Federal Government would continue to make up the difference. This was done in what we considered to be an orderly and responsible way.

Another case is the special milk program which was reduced, as you indicated, from \$103 to \$21 million. This was done, we think, carefully and deliberately to avoid taking away milk from needy children while reducing the Federal Government's expenditures in this program for children from families or school districts which could well afford to pay for it.

The special milk program will not be taken out of schools which have no school lunch program, and under the school lunch program, a half pint of milk is provided in the lunch to qualified students.

So, to reiterate, where there is no school lunch the special milk program will continue; secondly, the special milk program will continue in the poorer school districts where it is pretty well impossible for those kids to get the milk otherwise.

The same kind of considered reduction was made in the space program, incidentally. That is another program about which people made a number of adverse comments about reducing expenditures by \$300 million.

This again was the result of a very careful review of space priorities in our various activities in space. It also stems from the fact that the largest part of our space expenditures are involved in the manned lunar landing. One of the things we decided to do was not to inaugurate major new programs in 1967 of the magnitude of the manned lunar landing program.

Secretary FOWLER. I have a slightly different observation to make, Mr. Chairman, since I have to worry about where the money comes from.

Last summer you made a statement to the Joint Committee on the Organization of Congress on the general problem of expenditure control. You were kind enough to send me a copy of your statement, and I was bold enough to send you my comments on it.

If I may, I would like to make a comment based on that reply. I said:

One of the most obvious facts of political life is that the special interests are concentrated and strong while the general interest tends to be diffused and weak. I do not mean to imply that there is anything evil or sinister in special interests. It is only natural for those who benefit from particular Federal expenditures to employ all possible political pressures to preserve them. We must, therefore, rely upon both the President and the Congress to protect the general interest even though this is exceedingly difficult.

Despite the tremendous efforts of the President to hold down expenditures, I think it is generally agreed that he has done his best to recommend sufficient funds to carry out the broad range of valuable Government programs. Nevertheless as you pointed out Congress increased these recommended expenditure authorizations by over \$5 billion. The money will undoubtedly go for popular purposes, but we obviously need some method of holding down the overall Federal spending level, especially when our defense requirements are growing as they are. * * *

In the final analysis, however, we cannot escape the fact that popular and even desirable programs must be given very careful scrutiny. Certainly the poverty, education, and health programs are essential, but the President's budget recommendations, made in the light of how effectively these expenditures

can be made, should not be exceeded. Military bases, veterans' hospitals and other Government installations which are no longer vital should be phased out. Public works which do not meet the Bureau of the Budget's rigorous tests of economic feasibility and national need should be postponed.

In these respects, I do not wish to imply that Congress should not put its own stamp on the President's recommendations. The legislative branch has its responsibilities to review Executive recommendations with a fine-tooth comb. In doing so, however, we need to keep the national fiscal requirements before us, so that additions can be offset by subtractions. * * *

I recognize that it is easier to turn on the faucet than it is to turn it off. Nevertheless, if we are to maintain an adequate national defense while yet protecting the integrity of the dollar from inflation, it is imperative that we as a nation develop the fiscal flexibility necessary not only to stimulate the economy when appropriate but also avoid excessive stimulation when this policy is called for.

I wanted to add that note from the revenue side to this general problem.

Mr. MAHON. That is very helpful.

NEW OBLIGATIONAL OR APPROPRIATIONS BUDGET—BASIS FOR CONGRESSIONAL ACTION

Now, with respect to the emphasis each year on the administrative budget, the talk centers almost entirely on the expenditure side. We were talking about this magic figure or mark of \$100 billion. This current year, fiscal 1966, as a result of Vietnam, the new budget indicates we are now going to spend an estimated \$106.4 billion, whereas \$99.7 billion was the much publicized expenditure figure in the fiscal 1966 budget of the President when it was originally submitted a year ago.

Is there some way whereby greater emphasis can be placed by the executive branch on the appropriations budget—the new obligational authority budget—because Congress does not deal directly with the expenditure budget, generally speaking? Not very much is printed in the papers about the appropriation or new obligational budget, which for fiscal 1967, as we know, is \$121.9 billion.

The average citizen and others are now thinking in terms of a 1967 budget of \$112.8 billion, not the requests of Congress for \$121.9 billion in new obligational authority—which includes some so-called permanent appropriations, mainly interest on the debt.

How could you help make this picture clearer? Whenever we appropriate the money it will, inevitably, in most cases be spent, as authorizations and appropriations are the seedbed, the necessary forerunners of expenditures. When we charge something at the department store, it is only a matter of time until we have to draw a check to pay for it.

Mr. Secretary, have you a comment?

Secretary FOWLER. I have nothing to add, except to say, again, that in adding to recommendations for new obligational authority requested by the President, Congress has an obligation to consider the broader fiscal picture. In other words, the Congress should avoid net additions which cause problems later on unless it is willing to adjust revenues to finance these additions.

Mr. MAHON. I would point out that in your new "Budget in Brief," which is an exceptionally well done document, I believe only one page or so is devoted to treatment of the subject on a new obligational

authority basis; the rest of the outgo side is dealt with in terms of expenditures. But we will be voting during the year on bills that will be stated on an appropriations or obligational authority basis, not on an expenditure basis. It is the source of much confusion and misunderstanding.

Mr. SCHULTZE. I would like to make a couple of comments on that. Clearly in our own internal review of the budget, just as in your review of the budget, we concentrate very heavily on new obligational authority, or appropriations, because this is where the program control is on the funds recommended by the President and enacted by the Congress. Internally this is where our control is just as yours is.

However, we must also consider the following factors: For analyzing fiscal and economic policy, various measures of Federal financial transactions are important. For example, if new appropriations are expanded rapidly and Government orders—that is, obligations—rise sharply, business activity is immediately stimulated. This can occur well before the goods are delivered, the services are performed, or the payments are actually made. Another example is the area of credit programs and public debt management which have a significant effect on the economy's money and credit markets which is only partly reflected in the budget totals.

Nevertheless, admittedly oversimplifying a complicated situation, expenditures do represent a major point of economic impact of the budget. For significant parts of the budget, expenditures and obligations occur very close together in time. Moreover, the expenditure stage is the point at which the cash flow actually occurs.

The revenues that have to be raised essentially must be related to expenditures. What happens to the debt essentially stems from the relationship of expenditures to revenues. The debt limit will depend upon that.

Therefore the whole complex of economic, revenue, and debt considerations revolve around the translation of those appropriations recommended and enacted into expenditures.

We do recognize that no one way of looking at the budget serves all purposes equally well. We may overdo it, I admit, but in explaining to the public and to the Congress the impact of our recommendations and their actions we feel that expenditures and revenues represent the major overall impact, and I still feel that is correct. A detailed analysis of the economic impact of the budget would, take of course, into account both obligations and expenditures.

In terms of programs and program control, new obligational authority is the crucial measure and, of course, in the part of the budget which discusses major programs, each table lays out the new obligational authority as well as expenditures. Further detailed analyses and figures on new obligational authority are provided in part 5 of the smaller budget document, not just in the appendix to the budget.

Hence, what we have attempted to do is to emphasize both appropriations which are the individual program control numbers and expenditures which essentially have a major impact on the economic, revenue, and debt results.

This is not so much an answer as a comment upon your point.

Mr. MAHON. This is a very interesting comment, but until we can get a better understanding in some way or other of the appropriation

angle in connection with the administrative budgets, we will continue to have very serious difficulties in clarifying our actions and getting good reception on progress reports on congressional budget performance.

There are people in the country who think that since the budget presented by the President for fiscal 1967 is estimated to produce a deficit of only \$1.8 billion, that if Congress would cut appropriations by \$1.8 billion we would, automatically, balance the budget.

I wish you would point out in the record as clearly as you can at this point the fallacy of that reasoning.

This matter of a better understanding of which budget is before Congress for action this session is important enough to justify every pertinent effort we can make to promote that end. I think it might help if we inserted in this record an excerpt from some extended remarks I made on the House floor when the budget was submitted on the 24th of this month.

(The following is from p. 869, Record of Jan. 24:)

Spending and new obligational budgets—the portions subject to action this session

	Administrative budget estimate of expenditures (disbursements)	Administrative budget requests for new obligational authority
Relating to fiscal 1967:		
1. Totals proposed, President's budget, Jan. 24, 1966.....	\$112,847,000,000	\$121,904,000,000
2. Deduct estimate of expenditures in fiscal 1967 against obligational authority made available in prior sessions (and therefore not before the present session for action).....	-30,738,000,000	-----
3. Deduct amounts applicable to permanent appropriations recurring automatically without necessity for action in this session (several items; interest is by far the largest. Expenditure figure here may negligibly duplicate some (small) part of item 2, but not enough to distort).....	-15,650,000,000	-15,650,000,000
Amount relating to fiscal 1967 involved in proposals for direct consideration and action in this session....	66,458,000,000	106,254,000,000
Relating to fiscal 1966:		
4. Supplementals for fiscal 1966 as shown in the President's 1967 budget, Jan. 24, 1966, for direct consideration and action in this session.....	5,797,000,000	15,757,000,000
Totals for this session:		
5. Totals proposed, President's budget, Jan. 24, 1966 (items 1 and 4).....	118,644,000,000	137,661,000,000
6. Totals for direct consideration and action in this session (item 5, less items 2 and 3 which arise out of actions taken in prior sessions).....	72,255,000,000	122,011,000,000

NOTES

Item 2, in the "expenditure" figure, would include some amounts applicable to activities subject to annual scrutiny under the Corporation Control Act which would largely result, however, from new obligational authority granted in previous sessions.

Item 3, the "expenditure" figure is a bit arbitrary, because a few relatively small items cannot be separately identified.

Source: The budget for 1967.

Mr. SCHULTZE. One other point. It seems to me that perhaps the problem here—at least partly—is that when we are talking about totals, expenditures are the significant measure. The total of appropriations has much less significance because it includes so many purely financing items. It includes such things, for example, in some years as contributions to the International Monetary Fund which never get spent. Therefore, while the emphasis on programs has to be in terms

of new obligational authority, the emphasis on totals almost always has to be in terms of expenditures.

Mr. MAHON. You can elaborate on that for the record, Mr. Director, but it is true that, eventually, in almost all cases, the appropriated moneys are expended. Appropriations and obligational authority are what Congress acts on. They are the forerunners of expenditures. They are the barometers on the direction expenditures will take.

(The following was subsequently supplied:)

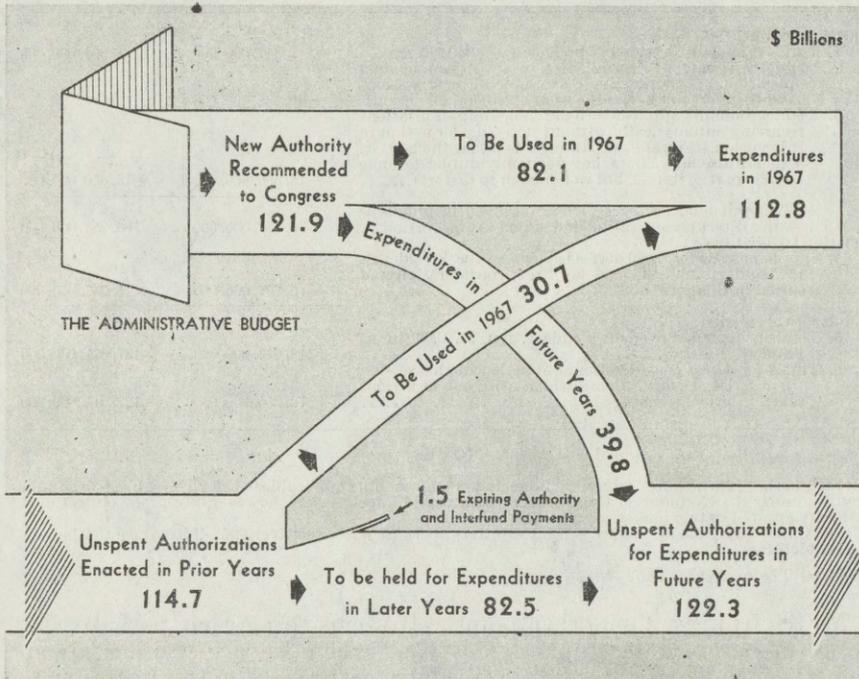
There is no clear, direct relationship between appropriations and expenditures in any given fiscal year. As appropriations and other new obligational authority are approved, they become the basis for each agency's program during the fiscal year. However, not all the funds approved by Congress are spent in that one year. The funds authorized for some programs (such as the building of warships or other major construction items) will be spent over a period of several years.

Therefore, when the Congress reduces or increases the amount of new obligational authority requested by the President for a given year, it does not necessarily alter expenditures in that year by the same amount. Such a change may affect expenditures over a period of several years.

The relationship between new obligational authority and expenditures estimated for 1967 is illustrated in the following chart.

CHART 2

1967 Administrative Budget - Relation of Authorizations to Expenditures



The fairly loose relationship between new obligational authority and expenditures for the same fiscal year can be illustrated in greater detail as follows:

1. There are some programs under which no expenditures have occurred and none are expected (dollars in millions) :

	Fiscal year	New obligational authority
Investment in Inter-American Development Bank.....	1965	\$456
	1966	456
Investment in International Bank for Reconstruction and Development.....	1967	456
International Monetary Fund:	1959	3,175
Loans.....	1963	2,000
Increase in quota.....	1965	776
Subscription to Asian Development Bank.....	1966	100

2. Revolving funds, mainly used for loan programs, represent another illustration of the lack of a direct relationship between new obligational authority and expenditures. The following are examples of this lack of relationship during the period 1960-67 :

[Dollars in millions]

Revolving fund and fiscal year	New obligational authority for year	Expenditures for year	Revolving fund and fiscal year	New obligational authority for year	Expenditures for year
Urban renewal fund:			Federal Savings and Loan Insurance Corporation:		
1960.....	\$350	\$105	1960.....		-20
1961.....	2,300	145	1961.....		-35
1962.....		227	1962.....		-236
1963.....		173	1963.....		-264
1964.....		235	1964.....		-248
1965.....	750	324	1965.....		-205
1966.....	675	362	1966.....		-262
1967.....	725	413	1967.....		-352
Total.....	4,800	1,984	Total.....		-1,622
Public facility loans:			Federal Housing Administration fund:		
1960.....		10	1960.....	\$28	-53
1961.....	550	19	1961.....	81	-7
1962.....	26	19	1962.....	204	199
1963.....	12	6	1963.....	162	135
1964.....		44	1964.....	206	-43
1965.....		38	1965.....		-115
1966.....		22	1966.....		116
1967.....		-50	1967.....		-107
Total.....	588	89	Total.....	681	125

3. In some programs only a small portion of new obligational authority will be spent in the year provided. The following are a few examples:

	New obligational authority	Expenditures
Economic opportunity program:		
1965.....	769	194
1966.....	1,401	1,180
1967.....	1,724	1,574
Appalachian development highway system:		
1965.....	200	0
1966.....	0	20
1967.....	130	102
Procurement of equipment and missiles, Army (supplemental):		
1966.....	2,465	310
1967.....		1,285
Aircraft procurement, Air Force (supplemental):		
1966.....	1,586	130
1967.....		650
Procurement of aircraft and missiles, Navy (supplemental):		
1966.....	764	40
1967.....		310
Construction of community health centers:		
1965.....	35	0
1966.....	50	2
1967.....	50	25
Grants for basic water and sewer facilities:		
1965.....		1
1966.....	100	
1967.....	100	51

4. Some appropriations finance payments to Treasury which are excluded from total administrative budget expenditures. Most of these "interfund transactions" represent payments to Treasury receipt accounts for interest on borrowed funds. Examples of larger amounts include:

	1965 actual	1966 estimate	1967 estimate
Commodity Credit Corporation.....	459	299	322
Housing and Urban Development:			
College housing loan program.....	49	58	64
Federal National Mortgage Association.....	87	55	48
Direct loans to veterans.....	36	33	24

PROPOSED RESTORATION OF EXCISE TAX REDUCTIONS

Mr. MAHON. Mr. Secretary, with respect to excise taxes we are marching up the hill and then down again, so to speak, if we follow the recommendation of this budget. That is, with respect to the tax on automobiles and telephone service.

Did Congress make a poor move when we recommended, when the Executive mentioned and the Congress approved—and I voted for it—the excise-tax cuts in respect to automobiles and telephone service last year? Was this poor vision of what the future held, since this budget proposes that we partially reverse ourselves? How do you explain this?

Secretary FOWLER. Mr. Chairman, to refresh your recollection, the recommendation of the President for excise-tax reduction was added to by the Congress as the bill went through the legislative process last year.

To summarize precisely what happened, I would like to read from the statement the President made at the time the bill was signed last year—

Mr. MAHON. It is true that the reductions to which I have particular reference became effective only 30 days ago, the first of the year.

Secretary FOWLER. The first installment of the various excise-tax reductions became effective on June 22 of last year, a tax reduction of approximately \$1,750 million. None of the taxes repealed last July 1 or January 1 of this year will be affected by the President's current recommendations.

In last year's bill, however, Congress recognized that the repeal or reduction of two taxes required special treatment due to their substantial revenue effect. Therefore, in the case of automobile and telephone taxes a schedule of reduction over a period of years was provided.

For example, the excise tax on automobiles was reduced on June 22 from 10 percent to 7 percent. An additional 1 percent was scheduled to be removed on January 1, 1966—and both reductions have in fact occurred. The schedule also provided for an additional 1 percentage point reduction in the automobile tax on January 1, 1967, January 1, 1968, and January 1, 1969, so that the rate would be down to 1 percent in 1969.

With reference to the telephone tax, the first reduction was a very substantial one, from 10 percent to 3 percent, and, as you know, this took place on January 1 of this year.

Now to come to the point of your question. The President and the Congress, in adopting this graduated approach to both the excise tax on automobiles and the tax on telephones had in mind that unforeseen circumstances might develop which could affect the rate reduction schedule.

The President in his signing ceremonies said:

The only major change that Congress saw fit to make was the additional reduction in the automobile tax in later years. I had recommended a 5-point reduction in that tax, and the Congress decided to increase this to 9 points. But by postponing the additional 4-point reduction, the Congress allowed time for possible modification if future developments should indicate that this should be desirable.

I doubt the circumstances that have developed are the ones the President had in mind when he made that statement. However, the fact of the matter is that when we look at the present situation we find that we still have these two taxes on the books as a result of the graduated reduction schedule, while the taxes repealed on July 1, and January 1, are off the books. Therefore, the simplest thing to do from an administrative standpoint—since the same accounting and recordkeeping processes have to continue for the next couple of years in order to collect these taxes—is to stretch out the reduction schedule for an additional 2 years.

This meant walking the cat back, as it were, on the reductions on automobiles and telephones that became operable on January 1 of this year.

I believe the graduated reduction voted by Congress last year was a wise step. In taking advantage of the fact that these two taxes are still on the book we are able to get the deficit down to manageable proportions in the least painful way—and in a way consistent with the policy of gradual reduction already adopted by the Congress.

Mr. MAHON. In your answer to this question, are you also taking into consideration the fact that we still have an upsurging economy?

Secretary FOWLER. Yes, indeed.

Mr. MAHON. Which is somewhat different from what it conceivably could have been otherwise.

Earlier in your testimony, you referred to the fact that certain ideas and policies were in your mind in formulating the 1967 budget which are quite different from those involved in connection with the previous budget?

Secretary FOWLER. Yes. At the time the excise tax recommendations were made last year, there was some concern that in January of 1966 the economy would falter as a result of additional social security and medicare tax burdens, since these new taxes would have a restraining effect.

In the meantime, we have had a shift in the economy largely as a result of increased Vietnam expenditures. I do not think there is much doubt in anybody's mind now that the basic problem is one of restraint rather than stimulation.

Mr. MAHON. You used the word "restraint." I think this word can be applied quite appropriately to the budget which you have presented to us here today. We would not all agree on the areas where the restraint would be applied, but there was a massive effort, in my opinion, in the executive branch to use restraint in keeping this budget from getting out of hand.

UNDERESTIMATE OF FISCAL 1966 EXPENDITURES

Last year, the original administrative budget for fiscal 1966 underestimated expenditures by about \$6.7 billion. Is that correct?

Secretary FOWLER. We originally estimated expenditures to be \$99.7 billion. They are now estimated to be \$106.4 billion.

Mr. MAHON. Yes. Of course, that is explained by the Vietnam war. But the Vietnam war was in progress when the original estimate was submitted and I think all knowledgeable people realized that the chances were it would not be settled quickly.

Of course, the actual turn of the war was not predictable at that time, so we do have a good explanation of why this condition would arise.

GENERAL VALIDITY OF THE 1967 SPENDING ESTIMATES

Mr. Director. I'm certain you have already read some press reactions to the matter of just how solid, just how sound this \$112.8 billion expenditure total is, just how realistic it is. A fair amount of skepticism has been expressed that the budget is fully realistic in relation to requirements for the Vietnam war. Of course, the truth is that nobody can be certain. Won't there be these and other factors and won't we come to the time next year when we will have to say, "Well, the budget estimate as to expenditures was, sadly, too low"? I am talking now of the entire expenditure picture.

Mr. SCHULTZE. Let me state at the outset that putting together the budget this year was a particularly difficult problem for the President in view of the greater than normal degrees of uncertainty attaching to future events.

I think perhaps the best answer to your question is to spend a moment and read three sentences from page 10 of the budget message where the President explicitly called this to everybody's attention:

No one can firmly predict the course of events in southeast Asia. They depend not only upon our own actions but upon those of our adversaries. As a consequence, ultimate budget requirements could be either higher or lower than the amounts I am now requesting. Prior experience shows that such estimates are extremely difficult to make. During the Korean war, for example, actual military expenditures fell substantially below the original budget estimate.

In 1953, for example, Defense expenditures were some \$6½ billion below the original projection and in 1954 they were another \$5.2 billion below.

Going back to quoting:

The amounts which I am presenting here reflect the best judgment that can be made at this point of time.

In other words, we have put into this budget all of the costs of the Vietnam situation as we can now see it. At the same time we are telling the American people that events may turn out to be quite different from what we now foresee in either direction. If this should be the case the President also indicated, both in his budget message and in his economic message, that he will promptly come to the Congress, both for the necessary funds and for corresponding fiscal actions to maintain economic stability.

We believe this was a careful and straightforward approach. We put into the budget everything we could honestly foresee to carry us fully through 1967 but at the same time we said obviously we are not magicians and we cannot foresee everything.

Mr. MAHON. We will now recess for lunch and, if agreeable, return at 1:15 p.m.

AFTERNOON SESSION

Mr. MAHON. We will now resume the hearing.

When we recessed for lunch, we were talking about some of the uncertainties that surround the budget, whether or not the estimates would actually become realities in fulfillment. In discussing a certain piece of legislation, and comparing the disappointing outcome of its operation with the high hopes for it at the time the legislation was passed, a former Member of the House once said:

They were feasting on the delights of sweet anticipation, but now they are gnawing on the cold corncob of stern reality.

I hope when fiscal 1967 has come and gone we would not be gnawing on the cold corncob of stern reality. We all know that, more often than not, the budget comes out worse than it started off—and for many reasons.

It is true, as you have so well pointed out, that the record of the present administration in respect to budgets coming out better than original estimates is most encouraging. The upsurging economy and the expenditure restraints by the administration have been very instrumental in making this possible. But in any event, in my judgment, it is common prudence to keep in mind that often—for many reasons—the budget picture darkens.

ESTIMATED COMPARED WITH ACTUAL RECEIPTS AND EXPENDITURES

It might be well to support this record with summarized figures showing how, in the last 11 budgets, the budget receipts, expenditures, and new obligational authority—the final results after the years were closed—matched up with the initial figures in the original January budgets for those years. The only point here is that original budgets

don't turn out just that way, and for a variety of reasons, and that in the long run, based on these history figures, budget positions worsen rather than brighten. Not every year, but over the long stretch, the result fails to match the initial projection.

(The following is from pp. 866-7 of the Cong. Record of Jan. 24:)

Variations in the administrative budgets—Original projections versus final results (using the last 11 budgets, 1955-56)

[NOTE.—Rounded amounts used]

Net budget receipts:	
Original January budget projections.....	\$849,263,000,000
Final results (when the years were over).....	840,824,000,000
Revenues fell short by.....	<u><u>-8,439,000,000</u></u>

(NOTE.—In 6 of the 11 years, revenues were less than the original budget; in 5 they were more.)

Net budget expenditures:	
Original January budget projections.....	862,502,000,000
Final results	883,964,000,000
Expenditures went higher by.....	<u><u>+21,462,000,000</u></u>

(NOTE.—In 8 of the 11 years, expenditures exceeded the original budget. In 3 years, it was less.)

So, in total, there was a deviation of..... +29,901,000,000

Budget surplus (+) or deficit (-):

Original January budget projections.....	-13,239,000,000
Final results.....	<u><u>-43,140,000,000</u></u>

So, in total, instead of a total deficit of \$13,200,000,000 over the 11 years as originally projected, there was a deficit of \$43,100,000,000—a change for the worse of... -29,901,000,000

New obligational authority (the forerunner of actual expenditures):

Original January budget proposals from the President's (which he not infrequently amends and supplements from time to time).....	874,200,000,000
--	-----------------

Final amounts enacted exceeded the original budget proposals by..... +43,200,000,000

(NOTE.—In 10 of the 11 years the final amount enacted exceeded the original January budget proposal for the year.)

Source: Budget Documents, January 1966.

BUDGETARY CONTINGENCIES AND ASSUMPTIONS

Mr. MAHON. Many people have the erroneous view that a budget just deals with money, whereas a budget in fact deals with a program that is both legislative and fiscal in nature. And it of course has two sides—income as well as outgo. I would like to examine with you some of the assumptions and contingencies on which this new budget is based, especially those which depend first upon legislative rather than appropriation actions.

It looks to me like Congress has its work cut out for it if it is to carry out the President's recommendations in keeping the budget only \$1.8 billion out of balance. We referred to some of those matters this morning.

We would like to have at one place in this record a listing of the main assumptions and contingencies; first, on the revenue side and then the contingencies on the expenditure side, particularly those that hinge upon legislative rather than appropriation actions. You have answered this to some extent.

(The following material was submitted by the Treasury Department:)

The revenue estimates assume a \$722 billion 1966 GNP figure, with corporate profits of \$80 billion, and total personal income at \$567 billion. They also assume that legislation will be enacted to—

(1) provide a graduated withholding system under the individual income tax;

(2) accelerate the transition of corporate income tax payments to a full pay-as-you-go basis;

(3) reinstate temporarily the excise taxes on passenger automobiles and telephone service which were reduced at the beginning of calendar year 1966 and defer the further reduction scheduled in the future; and

(4) require installment payments of estimated social security taxes of the self-employed.

The revenues attributable to these proposals are:

[In millions of dollars]

	Fiscal year 1966	Fiscal year 1967
Graduated withholding.....	95	400
Rapid corporate speedup.....	1,000	3,200
Excises:		
Communication.....		790
Automobiles.....	60	420
Total excises.....	60	1,210
Total administrative budget.....	1,155	4,810
Self-employment tax, quarterly payments.....	100	100
Total cash budget.....	1,255	4,910

Mr. MAHON. We would like for you to supply the dollar amounts involved—for both 1966 and 1967. How much of the 1967 budget, and you can take into consideration both fiscal 1966 and fiscal 1967, depends on what might be termed “one-shot windfalls,” not to be available to help balance the 1968 budget?

(The following material was submitted by the Treasury Department:)

The introduction of graduated withholding under the individual income tax and the speedup in the acceleration of corporation income tax payments provide additional administrative budget receipts which will not be repeated in fiscal year 1968. These two recommendations of the President will add an estimated \$1,095 million to fiscal 1966 revenues and \$3,600 million to fiscal 1967.

The excise tax proposals will provide somewhat larger administrative budget revenues in fiscal 1968 than in 1967. The increased revenues are estimated to be \$60 million in fiscal 1966, \$1,210 million in 1967, and \$1,460 million in 1968.

The cash budget will be further temporarily increased by \$100 million in each of the fiscal years 1966 and 1967 by the requirement of estimated payments of social security taxes by the self-employed.

Seigniorage receipts which were \$118 million in fiscal 1965 are estimated to increase by \$784 million in fiscal 1966 and by \$1,452 million in fiscal 1967. The amount of the higher seigniorage figures in later years has not been estimated but is expected to decrease substantially.

(The following information was provided by the Budget Bureau:)

The following lists various expenditure items which are of a special emergency or nonrecurring nature or for which the expenditure reduction from 1967 to 1968 may not be the same as from 1966 to 1967:

[In millions]	1966 estimate	1967 estimate
Special added Vietnam costs-----	\$4,739	\$10,539
Liquidation of public works acceleration program-----	125	8
Southeast hurricane disaster-----	30	5
Increase in disaster relief over average annual expenditures, 1961-65-----	127	19
Transitional grants to Alaska-----	5	-----
Economic assistance grant to construct new campus for Uni- versity of Americas in Mexico City-----	-----	2
Grants to land-grant colleges-----	12	-----
Loan to the United Nations-----	17	-----
Construction of mental health neurology research facility (completion)-----	3	5
Alaska Railroad (largely for completion of funding for earth- quake damage)-----	14	-----
Bureau of Engraving and Printing air-conditioning project (completion)-----	3	3
Internal Revenue Service—equipment purchases for con- version to nationwide master file processing system (com- pletion)-----	4	6
Loran stations—Defense (completion)-----	10	-----
Expenditure reduction (—) resulting from increase over prior year's sale of financial assets-----	-1,743	-1,432
Total-----	3,346	9,155

NOTE.—In Federal lending and construction programs, some new loans and projects are undertaken and some older ones terminate each year. These are considered continuing programs, however, and termination of individual projects are thus not considered non-recurring for purposes of the above list.

PROPOSED NEW LEGISLATION AFFECTING 1966 AND 1967 TOTALS

Mr. MAHON. I should like for you to insert a list of all proposed new legislation that figures in the budget totals for 1966 and 1967—something perhaps like I included in the Congressional Record on Monday last when the budget came to the House.

(The following was furnished for the record:)

PROPOSED LEGISLATION IN THE 1967 BUDGET

I. Legislation affecting administrative budget expenditures

[In millions of dollars]

	1966		1967	
	New obligational authority	Expendi- tures	New obligational authority	Expendi- tures
International financial institutions: Investment in Asian Development Bank.....	120	10	20	10
Agriculture:				
FHA: Sale of assets (FNMA: Sale of assets).....				-549 (-51)
REA: Revolving fund.....		-189	-305	-196
CMS: User charges.....	20		-71	-66
ARS: User charges.....			-1	-1
Total proposed legislation, Agriculture.....	20	-189	-378	-813
Commerce (Bureau of Public Roads):				
Forest highways.....			-33	-33
Public lands highways.....			-7	-9
Highway beautification.....			-92	-68
Highway safety.....			(¹)	(¹)
Trust funds:				
Forest and public lands highways (liquidation of contract authorization).....			(42)	
Highway beautification.....			(151)	
Total proposed legislation, Commerce.....			-132	-110
Health, Education, and Welfare:				
Public Health Service:				
Nurse and medical student loans.....			-21	-21
General health legislation to strengthen man- power and planning for health services and facilities.....			41	23
Water Pollution Control Administration:				
Clean rivers demonstration, strengthened en- forcement, research development and training, and State support.....			74	24
Office of Education:				
NDEA student loans (rescission of 1967 NOA and expenditures).....			-34	-34
Expenditure effect of sale of participation cer- tificates in pools of college academic facili- ties.....				-85
Total proposed legislation, Health, Edu- cation, and Welfare.....			60	-94
Housing and Urban Development:				
Pool participation sales:				
College housing loans.....			-300	-801
Public facility loans.....				-78
FNMA.....			-450	-383
Government mortgage liquidation fund:				
Aids to private housing.....				-17
Advancement of business.....				-161
Financing farm and rural housing.....				-51
Assistance to higher education.....				-22
Urban renewal and community facilities.....				-2
City demonstration grants.....			12	5
Total proposed legislation, Housing and Urban Development.....			-738	-1,510
Interior:				
Reclamation (3d powerhouse at Grand Coulee)....			3	2
Bonneville Power Administration.....	-39	-39	-40	-40
Southeastern Power Administration.....	-1	-25	-1	-26
Southwestern Power Administration.....	-2	-2	-3	-3
Total proposed legislation, Interior.....	-42	-66	-42	-68
Labor: Advance to the Employment Service.....			-23	-23
Veterans' Administration: Readjustment benefits (cold war GI bill).....			100	90
Small Business Administration: Proposed partici- pation sales authority legislation.....		-350		-383

¹ Less than \$500,000.

I. Legislation affecting administrative budget expenditures—Continued

[In millions of dollars]

	1966		1967	
	New obligational authority	Expendi- tures	New obligational authority	Expendi- tures
District of Columbia:				
Revised Federal payment formula.....			12	12
Loan to District of Columbia for capital outlay, highway fund.....			11	11
Total proposed legislation, District of Columbia.....			23	23
Total, proposed legislation affecting adminis- trative budget expenditures.....	99	-595	-1,109	-2,877

II. Legislation affecting receipts from the public

[In millions of dollars]

	1966	1967
Administrative budget receipts:		
Income tax proposals:		
Introduce graduated withholding schedule for individual incomes.....	95	400
Accelerate adjustment of quarterly payments on estimated corporation in- come tax liabilities.....	1,000	3,200
Excise tax proposals: Restore 7-percent automobile and 10-percent telephone service excise taxes.....	60	1,210
Subtotal, tax proposals.....	1,155	4,810
Transportation user charge proposals:		
Increase air passenger ticket tax to 6 percent.....		31
Tax transportation of air freight at 2 percent.....		6
Tax fuels used in general aviation at 4 cents per gallon.....		8
Transfer aviation gasoline tax receipts from highway trust fund.....		8
Repeal tax on gasoline used in commercial aviation.....		-4
Tax fuel used on inland waterways at 2 cents per gallon.....		7
Transfer 1-percent tax on automobiles to highway trust fund.....		-200
Subtotal, transportation user charge proposals.....		-144
Other user charges.....		10
Revolving funds:		
Rural Electrification Administration.....	-189	-196
Power administrations.....	-66	-70
Commodity grading and classification and warehouse licensing fees.....		-4
Other.....		-3
Subtotal, revolving funds.....	-255	-273
Total, administrative budget proposals.....	900	4,403
Trust fund receipts:		
Highway trust fund:		
Increase diesel fuel tax and apply graduated use tax on heavy trucks.....		197
Transfer 1-percent tax on automobiles from general fund.....		200
Transfer aviation gasoline tax receipts to general fund.....		-8
Quarterly payment on self-employment social security tax.....	100	100
Total, trust fund proposals.....	100	489
Total, proposed legislation affecting receipts from the public.....	1,000	4,892

PROPOSED SALE OF POOL PARTICIPATION INTERESTS IN GOVERNMENT-
OWNED LOANS

Mr. MAHON. Mr. Secretary, I wish you or the Director would discuss the sales of pool participations in Government-owned loans. This is a rather large item and while not new to this budget, it is relatively so in Government budgets.

What are its advantages to the Government in dollars and cents, and otherwise? Is the procedure a form of borrowing outside the debt limit?

What about the interest subsidy angle—how is that to be budgeted?

I refer to the rates to be paid on the certificates versus the generally lower rates yielded by the mortgages being pooled. I wish you would clarify that.

(The following material was submitted by the Treasury Department:)

Since the early years of the Eisenhower administration, sales of financial assets have been employed from time to time both to increase private participation in Federal loan programs and to help meet general budgetary requirements. Until recently, except for the special case of Commodity Credit Corporation, such sales have been confined largely to sales of individual loans.

Beginning in 1962 through December 31, 1965, the Export-Import Bank of Washington has sold nearly \$1.3 billion of its direct loans, primarily to participating banks, through loan pooling arrangements. Under these arrangements, direct loans of the Export-Import Bank are pooled and participation certificates in the pooled loans are sold at prices determined by market conditions.

Under authority granted by the Housing Act of 1964, the Federal National Mortgage Association (FNMA) through its management and liquidating functions has acted as trustee for the sale of participation certificates in pools of housing mortgage loans set aside by the Veterans' Administration (VA) and by the management and liquidating and the special assistance functions of the FNMA. Aggregate sales to date have totaled \$1.2 billion.

The program of sales of participations in financial assets held by the Government is a logical and efficient continuation of past governmental credit policy. This policy is premised on the following considerations. First, the accumulation of the financial assets held within the various credit agencies of the Federal Government reflects previous and continuing efforts to (1) remove or reduce "credit gaps" arising from market imperfections that result in discrimination against certain borrowers or in distortions in the flow of funds to certain activities or geographic areas, (2) influence the shift of additional resources into specific kinds of economic activity that promote social purposes which could not be achieved as effectively otherwise even in a perfect private market, and/or (3) increase the total use of resources, i.e., use manpower and other resources otherwise unemployed.

Second, the financing of these credit programs has normally involved use of the revolving fund method. That is, these are funds which finance a cycle of operations in which expenditures generate receipts coming primarily from the public and available for continuing use. This type of funding provides a desirable flexibility in lending operations and helps to disclose systematically the relationship between revenues and expenses as well as any subsidy provided by the Government.

Third, as recommended in the report of the Committee on Federal Credit Programs, Government credit programs should, in principle, supplement or stimulate private lending rather than substitute for it.

Finally, the report of the Committee on Federal Credit Programs recognized that sales of existing loans and other assets acquired from lending operations are an appropriate source of funds for new loans. The report further recognized that such sales should normally be made only at such times and prices as would be consistent with program objectives and overall fiscal policies. The President, at his Cabinet meeting in August 1965 urged that "to make the best use of scarce budgetary resources we should seek the substitution of private for public credit wherever this is compatible with the achievement of the basic purposes of our various Federal credit programs."

With the above background, it can be seen that the impetus which has been given to the participation sales programs in the past few years and the further expansion of this method to involve below-market interest rate loans as a source of funds in fiscal 1967 is consistent with past policies and in particular with the recommendations of the report of the Committee on Federal Credit Programs. While such sales will tend to reduce budget expenditures and the amount of debt subject to limit, the basic objectives of these sales would make them desirable whether or not such consequences resulted.

In evaluating the dollar cost of asset sale-type financing as opposed to direct Treasury debt issuance, the overriding difference is represented by the difference in yields in the market—essentially reflecting investor preferences. Experience in past participation sales has indicated that the added interest cost is on the general order of one-fourth of 1 percent, which margin may tend to decline in the future with growing market familiarity. In general, the cost of sales of assets through participations is less than direct sales, particularly in those cases involving types of loans which have not previously been tested in the private market. In cases where assets carrying below-market interest rates are involved, as they will be under proposals expected to be submitted shortly, the cost will also reflect the difference between the Treasury borrowing rate and the earnings—at below-market interest rates—carried by the loans involved. However, this latter cost is identical to the cost that would be borne by the Government even if the program funds were provided from Treasury borrowing. The attached table indicates the inventory of loans currently being considered in the participation sales program under existing and proposed legislation. The table also indicates the interest rates and maturities on these loans. It would be impracticable at this point to predict with any precision the yields that might have to be offered in marketing these assets. We do expect, however, that, as secondary markets develop for the participations certificates, the yield differential over Government issues will tend to narrow.

Inventory of financial assets eligible for inclusion in participation sales program under existing and proposed legislation in the 1967 budget

[In millions of dollars]

Agency and program	Loans outstanding		Interest rate ¹ (percent)	Maturity (years)	
	June 30, 1965, actual	June 30, 1966, estimate			
Department of Agriculture:					
Operating loans.....	\$708	\$1,113	5	3-7	
Farmownership loans.....	348		4-5	40	
Soil and water loans.....	54		4½	20-40	
Rural housing direct loans.....	666		4	33	
Emergency credit loans.....	105		3	1	
All others.....	16		2¾-3¼	15-30	
Department of Health, Education, and Welfare: Academic facility loans.....	2	62	3¾	30-50	
Department of Housing and Urban Development:					
Federal National Mortgage Association: ²					
Special assistance functions.....	1,101	709	3¾-4½	25-40	
Management and liquidating functions.....	1,019	717	4-4½	20-30	
College housing loans.....	1,927	2,170	2¾-3¾	30-50	
Public facility loans.....	184	206	3¾-3¾	30-40	
Veterans' Administration: ²					
Direct loans.....	1,145	498	4½-5¼	30	
Loan guarantee revolving fund.....	504	370	5¼-5½	30	
Small Business Administration:					
Business loans.....	715	1,072	4-5½	7	
Disaster loans.....	156		3	10	
Small business investment company program:					
Debentures.....	139		5	20	
Loans.....	135		5	5-15	
Economic opportunity loans.....	2	5½	9		
Total.....	8,926	7,736			

¹ Most loans bear interest rates within this range.

² Loans outstanding include assets pledged as excess coverage on existing participation pools.

RECEIPTS FROM STOCKPILE SALES

Mr. MAHON. I want you to make clear for the record information in regard to the sales of stockpiled materials. What impact these increasing sales have on this budget.

(The following statement was supplied for the record:)

Disposals of approximately \$1 billion of excess stockpile material are projected in 1966 and 1967. The following compares the estimates with 1965 sales:

[In millions]

	1965 actual	1966 estimate	1967 estimate
Defense Production Act revolving fund sales (credited to expenditures)-----	\$75	\$139	\$185
Strategic and critical materials stockpile sales (included in Treasury receipts)-----	280	804	826
Total-----	355	943	1,011

FEDERAL BASIS FOR GNP AND REVENUE GROWTH PROJECTIONS

Mr. MAHON. What are some of the key factors and indicators the professional economist looks for in his crystal ball when he makes judgments of how much the economy will grow, say this year over last year? How does he take his bearings in this connection?

(The following material was submitted by the Treasury Department:)

Many techniques are involved in making an economic forecast, ranging from simple extrapolation of the latest known level to complicated econometric models solved by computers. All of these techniques have one element in common: they focus on some relationship which has held in the past and assume that it will continue to hold in the future. Such relationships may be very simple, involving only a linear time trend for example, or they may be very complex, involving many prices, incomes, interest rates, and so forth. When forecasters differ, it is usually because they are making different assumptions as to just which relationships will remain stable and which will change in the near future.

The economic forecast underlying the budget is a joint product of the Treasury Department, the Budget Bureau, and the Council of Economic Advisers. In arriving at the forecast, the economy was disaggregated into sectors which were analyzed separately. For calendar year 1966, one of the strongest stimulants for the economy will be the increase in defense purchases of goods and services, which will be almost \$7 billion higher in 1966 than in 1965. Another key factor in the economy is business expenditures for fixed investment. On the basis of both private and Government surveys of businessman's plans, such expenditures are predicted to increase sharply in 1966. Although the percentage increase will be somewhat lower than that of 1965, the level of capital outlays will be about \$7 billion higher than in 1965. State and local government purchases are expected to increase by about \$5 billion. This sector has shown a very consistent, smooth, upward trend, which is expected to continue in calendar year 1966.

Inventory investment is more difficult to forecast, but fortunately it is only a small percentage of GNP. Inventory investment in 1965 was affected by special factors in the automobile and steel industries which will not be present in 1966. In the absence of such special influences, a fractional decline from last year's rate seems likely in 1966.

Little change in new residential construction is anticipated in 1966. Fundamental demographic factors will be about the same as in 1965, but tighter conditions in the mortgage markets will probably offset growth tendencies in this sector.

Consumer expenditures, which are the largest single component of GNP, depend primarily on the level of personal disposable income. While transfer payments (particularly health insurance) will rise strongly in 1966, this will be offset by higher social insurance taxes. Nevertheless, rapid gains can be expected in disposable income this year from strong increases in wages and salaries, interest, dividends, and self-employment incomes. Little change in the personal saving rate is anticipated for 1966. The saving rate in 1965 was close to the average of recent years, and consumer confidence and spending intentions (as measured by surveys) remain high. While there will be no new stimulus from tax cuts in 1966, consumer expenditures are expected to increase only slightly less than in 1965.

Mr. MAHON. I want you, Mr. Secretary, to give us your best estimate of the validity of the optimism displayed in this budget with respect to growth in the economy during the coming year.

Secretary FOWLER. Mr. Chairman, the main factors that I have taken into account, and that I thought the committee would be interested in, are summarized in my statement.

Mr. MAHON. You need not restate those but if there is any additional light that you could shed on that, you may do so at this point.

Secretary FOWLER. I would only like to add that I believe the \$722 billion estimate of gross national product for 1966 is conservative—a view I am sure is shared by the Council of Economic Advisers and the Director of the Budget.

In the report of the Council of Economic Advisers this GNP estimate is given, with the qualification that it is the midpoint of a \$10 billion range—in other words it could be \$5 billion more than \$722 or \$5 billion less. It is not feasible to try to target a figure with precision.

However, our experience during 1965 has been that our estimate of gross national product growth proved to be somewhat on the low side. Since we used the same techniques and procedures in forecasting this year's expected growth, I expect a figure within a \$10 billion range of \$722 billion is the best estimate available, based on current information.

EXECUTIVE REDUCTIONS IN DEPARTMENT AND AGENCY REQUESTS

Mr. MAHON. All right.

We continue to talk about the quality of restraint and in your presentations you have made clear that you made some sharp reductions in the requests of the departments and agencies.

Mr. Director, you made reference to the agencies having requested far more money for fiscal 1967, and perhaps for supplementals, than is actually in the budget. I wish you would give us a table or breakdown of that as near as you reasonably can.

Mr. SCHULTZE. Mr. Chairman, could I provide you with as much as I feel I honestly can while still preserving the relationship between the President and his Cabinet members with respect to their confidential requests?

Mr. MAHON. Yes, of course.

(The information requested follows:)

Reductions made in the 1967 budget requests of the agencies as a result of reviews by the President and the Bureau of the Budget amounted to about \$9 billion for the civilian agencies and over \$12 billion for the military functions of the Department of Defense. The Defense figure represents the reduction made from the requests of the individual armed services; review of these estimates is carried out jointly by the Office of the Secretary of Defense and the Bureau of the Budget.

NEW LEGISLATIVE PROGRAMS IN 1966 NOT FULLY FUNDED IN 1967 BUDGET

Mr. MAHON. Now I wish you would make a list of new legislation of last year that this budget fails to fund to the full authorization, pointing out the disparities.

Mr. SCHULTZE. I have such a list.

(The following was furnished for the record:)

Comparison of available authorizations and the 1967 budget request

[Dollars in millions]

	Authorization available in 1967	1967 budget request (NOA)
Commerce:		
Economic Development Administration:		
Development facility grants.....	\$500.0	\$170.0
Economic development revolving fund.....	170.0	81.0
Economic Development Center assistance.....	50.0	40.0
Technical assistance and planning grants.....	25.0	19.0
Regional planning assistance.....	15.0	7.0
Total, Public Works and Economic Development Act (Public Law 89-136)	760.0	317.0
Office of State Technical Services (Public Law 89-182).....	20.0	8.0
High-speed ground transportation research and development (Public Law 89-220).....	35.0	24.0
Highway beautification (Public Law 89-139):		
Landscaping and scenic enhancement.....	120.0	60.0
Control of outdoor advertising.....	20.0	15.0
Control of junkyards.....	20.0	15.0
Total, highway beautification	160.0	90.0
Appalachian Regional Development Act of 1965 (various agencies):		
Agriculture.....	14.0	4.5
Commerce:		
Development highways.....	160.0	130.0
Other.....	7.0	5.0
Corps of Engineers.....	4.0	2.0
Health, Education, and Welfare.....	59.0	13.0
Interior.....	19.0	11.0
Appalachian Regional Commission.....	1.0	1.0
Total, Appalachian Regional Development Act	305.0	201.0
Health, Education, and Welfare:		
Vocational Rehabilitation:		
Research, training, and expansion.....	104.0	67.0
Other.....	23.0	13.0
Office of Education:		
Impacted areas:		
Operating grants.....	416.2	183.4
Construction grants.....	22.9	22.9
National Defense Education Act:		
Student loans.....	201.0	*0
School equipment and related programs.....	99.0	63.0
Graduate fellowships.....	89.0	82.0
Guidance counseling and training.....	37.0	32.0
Language and area studies.....	16.0	16.0
Research in educational media.....	5.0	4.0
Teacher institutes.....	50.0	40.0
State statistical programs.....	2.0	2.0
Subtotal, NDEA	500.0	239.0
Vocational education.....	318.0	249.0
Higher educational activities:		
Community service and continuing education.....	50.0	20.0
College library grants.....	50.0	25.0
Library research and training grants.....	10.0	7.0
Library of Congress.....	6.0	3.0
Scholarship grants.....	124.0	122.0
Work study grants.....	165.0	134.0
Teacher fellowships.....	160.0	43.0
Teacher Corps.....	65.0	31.0
Instructional equipment.....	66.0	17.0
Subtotal, higher education	696.0	402.0
Grants to land-grant colleges.....	12.0	0
Training of teachers and research relating to education of the handicapped.....	38.0	33.0

See footnotes at end of table.

Comparison of available authorization and the 1967 budget request—Continued

[Dollars in millions]

	Authorization available in 1967	1967 budget request (NOA)
Health, Education, and Welfare—Continued		
Public Health Service:		
Medical education:		
Construction grants for medical-dental schools.....	\$160.0	\$135.0
Loans for medical-dental and nursing students.....	42.0	³ 0
Improvement grants to medical-dental schools.....	40.0	30.0
Support to diploma schools of nursing.....	10.0	6.0
Support to schools of professional public health training.....	5.0	4.0
Community immunization.....	11.0	9.0
Hospital and medical facility research.....	10.0	7.0
Solid waste disposal program (HEW portion).....	14.0	11.0
Community mental health staffing grants.....	40.0	34.0
Construction of community mental health centers.....	65.0	50.0
Health research facilities construction grants.....	⁴ 280.0	15.0
Regional medical program.....	90.0	43.0
Medical Library Assistance Act.....	23.0	14.0
(Construction grants).....	(10.0)	(7.0)
(Regional and branch libraries).....	(4.0)	(0)
(Research and development).....	(3.0)	(1.0)
Welfare Administration:		
Grants for child welfare.....	50.0	46.0
Training grants for professional personnel.....	5.0	4.0
Administration on Aging: Grants to States.....	8.0	6.0
Veterans' Administration: Grants for construction of State nursing homes.....	5.0	4.0

	Authorization available in 1967	Portion becoming available for 1967	1967 budget request
Housing and Urban Development:			
I. Appropriations:			
Urban planning grants.....	117		35
Community development training grants.....	30		5
Sewer and water grants.....	300	200	100
Advance land acquisition.....	45	25	5
Neighborhood facilities grants.....	88	50	25
Public works planning advances.....	45		
Rehabilitation loans.....	160	100	
Urban transportation ⁵	185	150	130
Housing for the elderly loans.....	175		50
II. Other new obligational authority becoming available in 1967:			
College housing loans (borrowing authority).....		⁶ 300	⁷ -300
FNMA—Special assistance functions (borrowing authority).....		⁶ 450	⁷ -450
Urban renewal grants (contract authority).....		⁶ 725	
III. Additional authorities:			
Rent supplement payments ⁸	65	35	35
Public housing annual contribution.....	460	47	260
Federal Aviation Agency: Federal-aid airport program ⁹	75		50

¹ \$840,000,000 authorized for 5 years; \$200,000,000 appropriated for 1965 and 1966; amount assumes \$160,000,000 for each of remaining 3 years.

² Represents authorization ceiling, not a 1967 guideline.

³ The budget contemplates proposed legislation to terminate direct student loans, and to continue (1) aid for college students through guaranteed loans (for which capital is supplied by the private credit market) and (2) special cancellation benefits for doctors, nurses, and teachers.

⁴ For 3 years.

⁵ 1967 NOA provided in 1966 appropriations act.

⁶ Authority enacted in Housing and Urban Development Act of 1965.

⁷ Receipts from proposed sales of participations in pools of loans will permit a cancellation of NOA otherwise becoming available.

⁸ Amounts represent maximum annual payments that may be provided in rent supplement contracts.

⁹ \$75,000,000 is authorized. Congress enacted advance authority (as is customary) of \$71,000,000. The 1967 budget proposes to rescind \$21,000,000 of this amount.

PROPOSED REDUCTIONS BELOW CURRENT LEVELS FOR CERTAIN ONGOING PROGRAMS

Mr. MAHON. I wish you would list the cuts below present levels which this budget recommends with respect to ongoing programs. We made reference to some of them this morning, such as aid to impacted school areas, the school milk program, and so forth.

(The following was supplied for the record:)

EXAMPLES OF SIGNIFICANT REDUCTIONS IN EXISTING PROGRAMS

1. Grants for schools in federally impacted areas: NOA down from \$397 million for 1966 to \$206 million for 1967.
2. Grants to land-grant colleges: NOA down from \$12 million for 1966 to none for 1967.
3. Grants for airports: NOA down from \$75 million for 1966 to \$50 million for 1967 (cancellation of \$21 million appropriated for 1967 is recommended).
4. REA telephone loan program level in 1967 reduced to \$85 million from \$101 million in 1966 (NOA down \$12 million).
5. School lunch program: NOA down from \$202 million for 1966 to \$183 million for 1967.
6. Special milk program: NOA down from \$103 million for 1966 to \$21 million for 1967 (expenditures drop by \$79 million).
7. New construction starts:
 - (a) Watershed protection: 80 new construction starts in 1966, 35 in 1967.
 - (b) Corps of Engineers: 66 new construction starts in 1966 (41 proposed, 25 added by Congress), 25 in 1967.
 - (c) Bureau of Reclamation: 12 new construction starts in 1966 (10 proposed, 2 added), 4 in 1967.
8. Agricultural research cutbacks:

Grants to the agricultural experiment stations are being reduced by \$8.5 million for research and \$2 million for facilities.

Certain pest control and disease programs are being curtailed or eliminated.

Research facilities are being closed or cutbacks undertaken in 69 locations.
9. Ship construction subsidies: NOA is down from \$132 million for 1966 to \$85 million for 1967.
10. Economic development facilities grants: NOA is down from \$203 million for 1966 to \$175 million for 1967.
11. FNMA—No new commitments are planned to purchase single-family mortgages in urban renewal and armed services housing programs—expenditures down by \$47 million in 1967.
12. NASA research and development: NOA down from \$4,503 million for 1966 to \$4,247 million for 1967—the budget contemplates cancellation of the Advanced Orbiting Solar Observatory (\$15 million).
13. AEC:
 - (a) Weapons program: Operating costs are down \$53 million to \$639 million in 1967.
 - (b) Experimental gas-cooled reactor (EGCR) project is being terminated—this avoids \$30 to \$40 million of future capital and operating costs.
 - (c) Medium power reactor experiment (MPRE) is being terminated—the project was budgeted at \$4 million in 1966.
 - (d) Project Rover: Operating funds are down from \$84 million in 1966 to \$78 million in 1967.
14. VA hospital and domiciliary facilities construction: NOA is down from \$91 million for 1966 to \$52 million for 1967.
15. Military construction and family housing: Expenditures are down by \$325 million in 1967 because of deferral of projects not vital to the military effort in Vietnam.

COST REDUCTION AND MANAGEMENT IMPROVEMENT SAVINGS

Mr. MAHON. On page 34 of the budget message, the President detailed some impressive figures of saving coming from day-to-day management improvement programs. The civilian agencies are said

to be yielding up annual savings of a billion dollars in each of the years 1966 and 1967. Defense is at \$4.8 billion and it is expected to exceed \$6 billion by 1969, according to the message.

We are interested in these estimates and the accomplishments they reflect. We would like the record to carry some substantiating information for them.

Mr. SCHULTZE. Yes, sir.

(The following was supplied for the record:)

CIVILIAN AGENCY COST REDUCTION

In December 1963 the President requested that the heads of departments and agencies undertake a program to control Federal employment through tighter management, redeployment of personnel, simplification of procedures, and stripping work to essentials. Agency heads were requested to make quarterly reports to the President on their accomplishment. These quarterly reports to the President have since been expanded to cover all of the cost reduction accomplishments of the agency.

In fiscal year 1965, civilian agency heads reported to the President actions they had taken to produce savings totaling \$661 million. The reported actions were reviewed by the Bureau of the Budget for reasonableness and consistency with information available to the Bureau about agency operations and budgets.

In March 1965, the President called for a new cost reduction program that required agency heads to establish cost reduction goals for their agencies and to report them to the President. After the BOB reviewed these goals and made adjustments to eliminate some items that did not meet our strict criteria, the amount that civilian agency heads are pledged to achieve through new or enlarged cost reduction activities totals \$875 million for fiscal year 1966.

The \$1 billion savings for fiscal year 1966 mentioned by the President in his budget message reflects these pledged savings as well as those recurring from cost reduction and management improvement actions taken in 1965 which have been estimated at \$503 million. A recurring saving is one which results from an improvement action having a repeated effect. The \$1 billion does not include the cost reductions to be made in fiscal year 1966 by NASA contractors who effected savings of over \$200 million for the Government in the period January 1, 1964, to June 30, 1965.

The \$1 billion reduction for fiscal year 1967 includes savings recurring from cost reduction and management improvement actions taken in both 1965 and 1966 (totaling \$851 million) and \$291 million subtracted from agency budget estimates for fiscal year 1967 by the BOB specifically for projected management improvements and productivity increases in that year. It does not include those anticipated NASA contractor savings and it does not include those additional actions that agencies must take to meet budgeted outputs within the necessarily limited resources requested in the President's budget.

We are quite confident that the figure of \$1 billion savings for both fiscal year 1966 and fiscal year 1967 represents a very conservative estimate of actual and projected accomplishments.

The agencies are achieving the results indicated through—

- Hiring controls;
- Tighter management on publications, files, overtime, travel, communications, etc.;
- Judicious procurement, contracting, supply, and space utilization;
- Use of excess facilities and equipment instead of new procurement;
- Automation, improved equipment, and the use of advanced technology;
- Streamlined organization, centralization of services, consolidation, elimination of unessential organizations, and cutting out unnecessary layers;
- Special management and manpower surveys to eliminate unnecessary work;
- Better methods of operation, including comprehensive program planning, better procedures, scheduling of work, and tighter standards of performance;
- Eliminating unessential functions, concentrating on high-priority activities, analyzing the cost and benefits of alternatives, and getting the public to assist in carrying out the work.

Some examples of individual cost reduction and management improvement projects contributing to the savings accomplished or planned are—

The Post Office made and continues to make significant savings in its mechanization and automation of postal activities. The use of additional high-speed facing and canceling machines and multiposition letter sorters saved \$165,000 in 1965 and will save \$715,000 in 1966. The use of small mailsters instead of larger, higher cost vehicles has saved \$1 million in 1965. A recently developed vacuum cleaning tool, being made available in all first-class post offices, will save \$250,000 a year in the cleaning of carrier cases.

The Coast Guard found that three 75-foot tenders would do the job originally conceived for 100-foot inland buoy tenders, which resulted in a saving of \$600,000 in 1965. It will convert 35 presently manned light stations to automatic operation during fiscal year 1966 leading to a recurring savings of \$434,000.

The Agency for International Development reduced nonproductive flight time in Laos by the installation of land markers resulting in a saving of \$200,000 in 1965 alone.

General Services Administration saved \$178,000 by consolidation of Federal Records Center activities.

The National Aeronautics and Space Administration saved \$88 million in 1965 by improving procurement practices—primarily by converting reimbursement contracts to incentive arrangements that save the Government 10 cents on the dollar.

The Department of Agriculture expects savings of \$2.1 million by changing from metal to paper containers for food distribution by the direct distribution program.

The Weather Bureau expects to save \$400,000 in fiscal year 1966 by such techniques as combining smaller installations, increasing coverage of larger stations, improving communications links, and cutting back frequency of observations.

The Tennessee Valley Authority expects to save 16 man-years and \$162,000 during this fiscal year in power transmission activities by reappraisal of shift manning schedules, increased use of subprofessional employees, and revised schedules and procedures for maintenance work.

Separation of active and inactive claims folders by the Veterans' Administration will improve access to active records, reduce personnel, and release space for other needs. Estimated increased productivity will enable a saving of \$127,260 in fiscal year 1966.

Establishment of a "sight draft" procedure whereby Federal cash is not disbursed to grantees until they are ready to actually spend it, thereby saving the Treasury the interest costs. HEW reports estimated savings in interest costs of approximately \$5.7 million for 1965; Interior expects to save \$1.8 million this year.

The Atomic Energy Commission developed performance standards for radar tube replacements which will save \$365,000 a year by doubling the useful life of these tubes.

DEPARTMENT OF DEFENSE COST REDUCTION

The Department of Defense cost reduction program was initiated prior to the Government-wide program now in effect, and in some respects served as a model. The goals and accomplishments of the DOD program have been reported directly to the President by the Secretary of Defense.

The Department of Defense cost reduction program was formally initiated by the Secretary of Defense in September 1962. The program was designed to focus additional attention on three major management areas within Defense. They are:

- I. Buying only what we need.
- II. Buying at the lowest sound price.
- III. Reducing operating costs.

Within each of these major areas, select individual areas have been identified for inclusion in the cost reduction program. Each area so identified has been defined as to scope and content, and special guidance has been developed as appropriate. Twenty-eight select areas have been identified and included in the program to date. In addition, special guidance has been or is being developed

for such general areas as manpower utilization, increased productivity, and contract administration. The above guidance, including forms, formats, and reporting instructions are included in the Department of Defense cost reduction program—reporting system (DOD instruction 7720.6). This system requires the military departments and defense agencies to forward formal cost reduction program reports to the Office of the Secretary of Defense each fiscal quarter.

Responsibility for effective implementation and operation of the cost reduction program throughout Defense resides with the Assistant Secretary of Defense (Installations and Logistics). The Secretaries of the military departments and the heads of Defense agencies are responsible for recommending and achieving monetary goals, appointing appropriate key personnel at all echelons within their organizations to carry out cost reduction program responsibilities, and to insure that all reports of savings and goals are thoroughly coordinated with all internal organizations having a responsibility for some part of the program to insure that such reports represent the formal and verified position of the reporting component. To assist in carrying out these responsibilities, a cost reduction steering committee has been established with a membership composed of key management personnel from the appropriate offices of the Office of Secretary of Defense, military departments, and the Defense Supply Agency. The steering committee develops and recommends basic policy and assists in resolving major problems. Further, for each individual area of the cost reduction program, a subgroup has been established, chaired by an appropriate representative of the OASD (I. & L.) with membership from each military department and the Defense Supply Agency, when appropriate. The mission of the subgroup includes: interchange of ideas; serve as a consulting body on functional or technical problems; identify, resolve, or forward for resolution, problems encountered; and, review progress being made in achieving goals.

Finally, departmental/agency quarterly reports, after review by the subgroup chairmen, are summarized by the Directorate for Cost Reduction Policy, Office of the Assistant Secretary of Defense (Installations and Logistics), and are forwarded to the Secretary of Defense and/or the Bureau of the Budget.

The Assistant Secretary of Defense (Comptroller) is responsible for audit review and evaluation of goals and reported savings. Within the military departments and defense agencies the respective audit organizations are responsible for this function for their department/agency. Audit review and evaluation of management actions which produce monetary savings begins at the lowest organization level which has audit capability. This review continues at each subsequent reporting echelon and finally culminates in an audit opinion, prepared at the headquarters level, applicable to the validity of all savings included in the department/agency quarterly report. A final audit opinion is rendered at the Office Secretary of Defense level, applicable to the quarterly DOD summary cost reduction program status report. This audit opinion is included as an attachment to the report.

GENERAL

In all cases savings goals are reported to the President over the signature of the agency head or a responsible subordinate. The adjustments made by the Bureau of the Budget are largely a matter of definition. We have considerable confidence in the goals since we believe agency heads will want to be able to demonstrate to the President that they have substantially achieved their pledges.

With regard to the validation of savings outlined in the progress reports to be made to the President, the Bureau of the Budget has issued the following instructions:

“Savings will be measured using the techniques appropriate to the particular circumstances. Care will be taken to prevent double counting and to consider offsetting costs. All offsetting costs applicable to an individual savings action, whether incurred within or outside the reporting agency, will be deducted before net savings are reported. Savings should be validated by a review performed independently from the claiming unit. Such validation will be performed before data and reports are submitted to the Bureau of the Budget and the President. The term ‘validation’ means an independent evaluation of the reasonableness of amounts reported as accomplishment against goals through selective examination of reports, records, and operations.”

The Bureau of the Budget will review the reported accomplishments for reasonableness in the light of what is known about current activities of the agency and its validation system.

Accordingly, while the BOB itself is not in a position to certify the exactitude of the reported savings we are confident as to their overall reasonableness. Of perhaps greater importance than the absolute precision of the reported figures is the very evident manifestation of an attitude of cost consciousness that now permeates the executive branch. This attitude and our improving ability to manage our activities produces the significant beneficial effect on the cost of carrying out our missions.

IMPOUNDING OR DEFERRAL OF FUNDS PREVIOUSLY APPROPRIATED

Mr. MAHON. Can you tell us at this time as to what funds heretofore appropriated by Congress may be impounded?

You made reference this morning to about a half billion dollars in military construction funds that are being impounded or deferred or delayed. Are there any other major areas?

Mr. SCHULTZE. Yes, sir. I can give you a few.

Mr. MAHON. List the larger ones.

Mr. SCHULTZE. In a number of agencies we have formally reserved for savings, not for other uses but for savings in the 1966 budget, some \$96 million. In addition, we have reserved no-year funds for possible obligation in future years; the number of deferments of this type adds to \$3.4 billion, of which defense is \$1.9 billion. The remainder is scattered over a number of agencies with large amounts for Housing and Urban Development and Agriculture.

Mr. SIKES. Mr. Chairman, I have a question in that connection. May I ask this at this time?

Mr. MAHON. Mr. Sikes.

Mr. SIKES. What is being done with these funds? Are they actually being impounded or are they going to be utilized in other programs? Just what is the status of the funds which are not being apportioned from the fiscal 1966 appropriations, such as military construction funds?

Mr. SCHULTZE. There are three kinds of things that we do when we reserve funds.

One is a reserve for savings; that is, a reserve for funds we have no intention of spending at the moment, this year, in future years, or at any time.

Mr. MAHON. You recognize that you cannot divert them at will?

Mr. SCHULTZE. We cannot divert them. Even in the programs themselves these funds will lapse. As I say, we can identify about \$96 million of those. In addition, we reserve no-year funds for future use. This is a deferment.

Mr. SIKES. You are now speaking of military construction money?

Mr. SCHULTZE. Correct.

Mr. SIKES. These are reserved for future use?

Mr. SCHULTZE. Yes.

Mr. SIKES. For those programs only?

Mr. SCHULTZE. For those programs. We do not divert them to other programs.

Third, we have other cases in which we reserve funds this year for future apportionment later in the year if conditions change in the same program. Those are the three kinds of actions taken. In no case do we divert funds. We either reserve them with the intention of lapsing them or using them in later years, or we reserve them with the intention of using them later in the same year if conditions permit.

Mr. SIKES. On military construction funds, which of the three categories do those funds fall into?

Mr. SCHULTZE. It is my understanding that it falls into the second category; namely, for use in future years. Actually the military construction funds have not yet been reserved formally and are therefore not in the figures quoted. However, the funds are being reserved from use and as apportionment changes are processed, these funds will be placed in the category of reserves for use in subsequent years.

Mr. SIKES. Is this the same as the impounding which I understand is permitted by the Anti-Deficiency Act?

Mr. SCHULTZE. On the technical term "impounding," on that, I would prefer to supply a reply for the record. I cannot tell you right now. As you know, I was saying we put it into reserve. I know we don't call it impounding. However, I am not sure myself of the precise technical—

Mr. SIKES. In your opinion, does this comply with the requirements of the Anti-Deficiency Act?

Mr. SCHULTZE. As far as I know, Mr. Congressman, it does.

Mr. SIKES. Will you explore that further and supply a more definitive answer for the record?

Mr. SCHULTZE. I would be very glad to, sir.

(The following was furnished for the record:)

Neither the law nor executive branch regulations use the term "impounding." The Anti-Deficiency Act contains no authority to change the purposes for which an appropriation may be used, or to take money from one appropriation and place it in another account or fund. When the Bureau of the Budget apportioned only part of an appropriation (placing the remainder in reserve), the unapportioned (or reserved) amounts still remain appropriated. If not subsequently reapportioned for the purposes of that same appropriation, they will eventually be written off, at the end of the fiscal year or at some subsequent closing as may be provided by law. Such amounts can be moved to another appropriation only by specific authority of law, for example, in those cases where Congress transfers from one account to another in lieu of providing certain supplemental appropriations to finance costs under new pay acts.

The apportionment form presently used most commonly provides three lines for reserves as follows:

Reserves for savings.—This line is used primarily for annual appropriation accounts to reflect the money set aside under paragraph (c) (2) of the Anti-Deficiency Act "to effect savings whenever savings are made possible by or through changes in requirements, greater efficiency of operations, or other developments subsequent to the date on which such appropriation was made available."

Reserves for obligations to be incurred in subsequent years.—This line is used (for accounts which are available under the law for more than 1 fiscal year) to set aside amounts to be used in subsequent years. Paragraph (c) (3) of the act provides that "any appropriation subject to apportionment shall be distributed by months, calendar quarters, operating seasons, or other time periods * * *." However, paragraph (c) (1) of the Anti-Deficiency Act provides that "all appropriation or funds not limited to a definite period of time * * * shall be so apportioned as to achieve the most effective and economical use thereof." The apportionments are usually acted on for 1 fiscal year at a time. Therefore, the portion of the appropriation which is to be distributed in future years is put on this line. The military construction funds referred to are being placed in this category; that is, they are still available for use and will remain available indefinitely, but present plans are to defer their use until a later year.

Reserves for other contingencies.—This line covers reserves established under paragraph (c) (2) of the Anti-Deficiency Act which provides that "reserves may be established to provide for contingencies * * *." This category ordinarily is used where experience indicates that a particular account is frequently subject to demands of an emergency nature and where we like to insure that the appropriation will be sufficient to provide for any emergencies as well as for the routine purposes for which it was made available.

Mr. MAHON. Mr. Whitten?

Mr. WHITTEN. Thank you, Mr. Chairman.

GOVERNMENTAL DEBT—STATE, LOCAL, AND NATIONAL

Mr. Secretary, everything of course is relative. I note, as you point out, that the national debt as related to the gross national product becomes less. As a matter of fact, however, in addition to that, the total governmental debt becomes larger. After all, we only have one population and all of us are obligated for our share of the overall debt, including our State, county, city, as well as our share of the national debt. At the last count, I believe the figures showed overall governmental debt, including these various units, has increased. In other words, the per capita governmental debt is heavier, not lighter. Could you provide for the record statistics on this overall picture?

Secretary FOWLER. I can provide that.

Mr. WHITTEN. The increasing Federal-city debt and increased total for the individual overall?

Secretary FOWLER. Yes, Mr. Whitten. I would like to say with reference to the Federal debt—

Mr. WHITTEN. May I interrupt to say I make no special point of this. But I think the record might well show the overall situation.

Secretary FOWLER. Am I correct in understanding that your request had to do with State and local debt, as well as Federal debt, on a per capita basis?

Mr. WHITTEN. That is right, over a period of years. Whatever is most convenient and will bring some perspective to the matter, because as I say, we have only one population to carry all the debt.

Secretary FOWLER. Taking 1946 as a benchmark, the Federal debt on a per capita basis was \$1,817 compared with \$1,641 at the end of 1965. Real per capita debt—a more refined measure—also followed the same downward pattern. In 1946, on a 1957–59 base, the real per capita debt was \$2,544. At the end of 1965, it was \$1,478.

Mr. WHITTEN. That is all very good. That is a part of it. The record ought to show the total debt for each level and the increase in the total, Federal, State, and local. Then the per capita amounts could also be shown. Could you supply that for the record?

Secretary FOWLER. Yes. Do you also want corporate and individual debt included?

Mr. WHITTEN. That could be kept separate. You might show the two.

Secretary FOWLER. Right.

Mr. WHITTEN. I do not think you should pool those. I want the total to go with the figures that you have given on a per capita basis.

Secretary FOWLER. Right.

(The following material was submitted by the Treasury Department:)

Gross Government and private debt, 1946-65

End of calendar year	Government debt			Private debt			Total Government and private debt			Ratios of debt to gross national product (percent)						
	Amounts outstanding		Per capita ³	Amounts outstanding		Per capita ³	Amount outstanding	Per capita	Per capita	Federal	State and local	Corporate	Individual non-corporate	Total		
	Federal ¹	Total		Corporate business ⁴	Individual non-corporate business										Corporate business	Individual non-corporate business
	Billions	Billions	Billions	Billions	Billions	Billions	Billions	Billions	Billions	Billions	Billions	Billions	Billions	Billions		
1946	\$259.5	\$16.4	\$1,817	\$1,932	\$110.5	\$60.0	\$774	\$424	\$417.9	\$3,130	\$221.4	117.2	7.4	49.9	27.4	201.9
1947	257.0	17.8	1,767	1,880	129.5	70.9	800	487	475.9	3,297	245.0	104.4	7.3	52.9	28.9	194.0
1948	252.9	19.8	1,708	1,842	140.3	82.2	848	562	446.2	3,353	261.2	104.8	7.3	54.1	31.9	197.0
1949	256.7	22.6	1,678	1,858	141.0	88.2	937	624	514.7	3,419	270.5	98.7	6.9	54.1	36.0	197.6
1950	256.7	25.6	1,678	1,845	168.8	100.0	1,033	712	600.4	3,660	271.2	82.5	8.2	54.2	35.0	199.0
1951	259.5	28.3	1,665	1,848	192.7	119.9	1,238	772	638.0	3,850	288.2	70.7	8.4	57.0	35.5	177.5
1952	267.4	31.2	1,680	1,886	203.7	135.7	1,386	857	638.0	4,029	301.0	74.1	8.6	56.4	37.0	176.7
1953	275.8	35.2	1,700	1,948	213.6	165.5	1,532	934	624.6	4,188	300.8	76.3	8.7	57.5	41.7	187.0
1954	278.8	40.6	1,683	1,956	254.5	190.3	1,822	1,010	703.3	4,290	279.2	73.7	10.7	57.5	43.6	185.2
1955	280.8	45.6	1,629	1,925	278.0	207.5	1,842	1,141	703.3	4,290	279.2	68.5	11.1	62.1	46.4	188.2
1956	276.7	50.2	1,591	1,908	298.3	221.2	1,720	1,221	813.2	4,788	433.2	68.9	11.6	64.4	47.9	187.7
1957	275.0	54.8	1,531	1,908	315.9	239.5	1,720	1,280	849.3	4,908	438.2	63.8	12.7	65.1	50.5	195.9
1958	283.0	59.8	1,611	1,981	345.6	259.5	1,764	1,363	897.8	5,108	458.2	60.3	12.7	67.2	51.0	181.3
1959	290.9	64.8	1,622	1,983	345.6	268.4	1,764	1,472	945.3	5,383	499.2	60.3	13.0	69.6	53.1	194.3
1960	290.9	69.8	1,593	1,976	369.5	286.4	1,764	1,571	1,015.1	5,573	498.3	55.7	13.9	69.6	56.9	201.8
1961	296.5	77.5	1,600	2,005	398.1	310.4	1,764	1,671	1,078.0	5,815	542.8	57.6	13.8	73.4	57.2	208.6
1962	304.0	82.3	1,618	2,015	426.4	341.6	2,266	1,815	1,148.3	6,135	574.3	52.9	14.7	74.2	59.5	200.9
1963	310.7	89.0	1,625	2,092	461.4	379.0	2,417	1,986	1,233.7	6,465	608.8	50.9	14.7	75.8	62.3	203.6
1964	318.1	95.0	1,647	2,138	492.4	417.7	2,519	2,159	1,333.8	6,841	648.8	45.8	14.6	75.9	64.4	204.0
1965	321.4	103.2	1,641	2,163	538.2	457.7	2,748	2,337	1,413.6	7,250	674.8	43.8	14.6	77.6	76.5	202.1

¹ Gross public debt and guaranteed obligations.

² Treasury estimates based on census data.

³ Debt divided by the population of the contiguous United States and including Armed Forces overseas. Alaska is included beginning in 1959 and Hawaii beginning in 1960.

⁴ Includes nonguaranteed Federal agency issues, which amounted to \$14,100,000,000 on Dec. 31, 1965.

⁵ Implied level end of year, calculated as the average of the 4th and 1st calendar quarters at seasonally adjusted annual rates.

⁶ Not available.

⁷ First made by projecting a 1½ percent increase in GNP for 1st quarter 1966 over 4th quarter total of \$697,200,000,000.

SUPPLEMENTAL APPROPRIATIONS FOR 1966 CONTEMPLATED IN 1967 BUDGET

Mr. WHITTEN. We on the committee constantly are faced with supplementals through the years. The public does not always understand that supplementals are sometimes contemplated in budgets; they generally are, I should say.

Just to keep the record clear, what are the figures on contemplated supplementals in this budget?

Mr. SCHULTZE. The total supplementals for fiscal 1966 in this budget run to \$15.8 billion.

Mr. WHITTEN. Could we have a breakdown for the record at this point?

Mr. SCHULTZE. Right, sir.

(The information requested follows:)

1966 supplemental requests in the 1967 budget recapitulation

[In thousands of dollars]

	1966	
	New obligation authority	Expenditures
Total: Proposed legislation (table A).....	98,678	-594,882
Total: Supplementals under existing legislation: (Table B) Other than pay increases.....	14,380,410	5,179,641
(Table C):		
Military pay increases.....	773,749	754,642
Civilian pay increases.....	404,380	382,353
Total: Allowance for contingencies.....	100,000	75,000
Grand totals: Items proposed for later transmittal:		
Other than pay increases.....	14,579,088	4,659,759
Military pay increases.....	773,749	754,642
Civilian pay increases.....	404,380	382,353
Total.....	15,757,217	5,796,754

1967 budget—Items proposed for separate transmittal

A. Proposed legislation

[In thousands of dollars]

	1966	
	New obligation authority	Expenditures
International financial institutions: Investment in Asian Development Bank.....	120,000	10,000
Agriculture:		
Rural Electrification Administration revolving fund.....		-189,000
Consumer and Marketing Service user charges.....	20,360	
Total proposed legislation, Agriculture.....	20,360	-189,000
Interior:		
Bonneville Power Administration.....	-38,951	-38,951
Southeastern Power Administration.....	-1,000	-25,200
Southwestern Power Administration.....	-1,731	-1,731
Total proposed legislation, Interior.....	-41,682	-65,882
Small Business Administration: Proposed participation sales authority legislation.....		-350,000
Grand total, proposed legislation.....	98,678	-594,882

B. Supplementals under existing legislation (other than pay increase costs)

SUMMARY SHEET

[In thousands of dollars]

	1966	
	New obligational authority	Expenditures
Legislative branch.....	98	83
The Judiciary.....	1,170	1,054
Disaster relief.....	75,000	35,000
Military assistance program.....	(375,000)	225,000
Economic assistance.....	415,000	100,000
Agriculture.....	10,470	10,454
Commerce.....	505	454
Department of Defense:		
Military.....	12,345,719	3,853,000
Civil.....	23,240	1,900
U.S. Soldiers' Home.....	(90)	(87)
Health, Education, and Welfare.....	1,110,594	559,428
Housing and Urban Development.....	27,000	20,100
Interior.....	4,610	8,602
Justice.....	697	390
Labor.....		1,719
Post Office.....	49,500	47,393
State.....	577	377
Treasury.....	144	138
General Services Administration.....	3,700	3,700
Veterans' Administration.....	293,000	292,900
Civil Service Commission.....	720	610
Commission on Civil Rights.....	442	173
Equal Employment Opportunity Commission.....	690	632
National Capital Planning Commission.....	50	50
Railroad Retirement Board.....	(850)	(850)
Selective Service System.....	11,594	10,600
Smithsonian.....	166	161
National Gallery of Art.....	24	23
District of Columbia.....	5,700	5,700
Total.....	14,380,410	5,179,641

BY ITEM

Legislative branch:		
Architect of the Capitol.....	92	78
Botanic Gardens.....	6	5
Total, legislative branch.....	98	83
The judiciary:		
Supreme Court.....	5	4
Court of Appeals, District of Columbia, and other Judicial services.....	1,165	1,050
Total, the judiciary.....	1,170	1,054
Funds appropriated to the President:		
Disaster relief.....	75,000	35,000
Military assistance: Special southeast Asia support: (appropriation to liquidate contract authorization).....	(375,000)	225,000
Economic assistance:		
Supporting assistance.....	315,000	90,000
Contingency fund.....	100,000	10,000
Total, economic assistance.....	415,000	100,000
Agriculture:		
Forest Service: Forest fire fighting.....	10,000	10,000
ARS: Wage board increase.....	470	454
Total, Agriculture.....	10,470	10,454
Commerce:		
Coast and Geodetic Survey: Salaries and expenses (wage board pay costs).....	110	104
Patent Office.....	395	350
Total, Commerce.....	505	454

B. Supplementals under existing legislation (other than pay increase costs)—Con.

BY ITEM

[In thousands of dollars]

	1966	
	New obligational authority	Expenditures
Department of Defense:		
Military: Supplemental appropriations for southeast Asia support.....	12,345,719	3,853,000
Civil:		
Corps of Engineers: Operation and maintenance, wage board.....	2,200	1,900
U.S. Soldiers' Home: Limitation on operation and maintenance.....	(90)	(87)
Ryukyu Islands: General and special funds (pretreaty claims).....	21,040	
Total, DOD (civil).....	23,240	1,900
Health, Education, and Welfare:		
Office of Education:		
Elementary and secondary education.....	184,000	
Civil rights.....	3,250	1,500
Higher education:		
Teacher Corps.....	13,200	
Library grants.....	10,000	4,000
Library training.....	1,000	
Vocational education: Guaranteed loans.....	1,000	570
Vocational Rehabilitation Administration: Grants to States.....	39,000	39,000
Public Health Service:		
Indian health activities (FICA and wage boards).....	371	371
Hospitals and medical care (FICA and wage boards).....	153	143
Foreign quarantine activities (FICA and wage boards).....	60	60
National Library of Medicine.....	4,175	1,400
St. Elizabeths Hospital: Salaries and expenses (wage boards).....	318	318
Social Security Administration:		
Military service credits.....	105,000	105,000
Payments to trust funds: Administrative expenses for hospital insurance.....	25,800	25,800
Contingency for supplementary medical insurance.....	342,000	
Welfare Administration: Public assistance grants to States.....	381,000	381,000
Special institutions:		
Gallaudet College.....	24	24
Howard University.....	216	216
General administration and other:		
Salaries and expenses, Office of Field Administration.....	27	26
Limitation payable from old-age and survivors insurance trust fund and Bureau of Federal Credit Unions operating fund.....	(32)	
Total, HEW.....	1,110,594	559,428
Housing and Urban Development:		
Public Housing Administration.....	27,000	20,100
Rent supplement program (appropriation language for 1966 to approve \$30,000 as the maximum amount of annual payments that may be included in rent supplement contracts to be increased by \$35,000,000 in 1967).....		
Total, Housing and Urban Development.....	27,000	20,100
Interior:		
Southwestern Power Administration (construction).....	520	200
Bureau of Land Management: Fire suppression.....	1,000	900
Bureau of Indian Affairs: Fire suppression.....	186	100
National Park Service:		
Fire suppression.....	300	
Operation of new areas.....	279	545
Wage board.....	550	
Maintenance of new areas.....	97	617
Storm damage repair.....	1,338	
Liquidation of C/A.....	(5,500)	406
Bureau of Commercial Fisheries: Pesticides research.....	55	5,500
Bureau of Sport Fisheries and Wildlife:		
Pesticides research.....	105	105
Wage board.....	180	180
Total, Interior.....	4,610	8,602

B. Supplementals under existing legislation (other than pay increase costs)—Con.

BY ITEM

[In thousands of dollars]

	1966	
	New obligational authority	Expenditures
Justice:		
Federal Prison System:		
Salaries and expenses.....	197	190
Support of U.S. prisoners.....	500	200
Total, Justice.....	697	390
Labor:		
Bureau of Employment Security: Salaries and expenses ¹	(790)	500
Wage and Hour Division: Salaries and expenses ¹	(350)	306
Office of Manpower and Administration: Salaries and expenses ¹	(15)	13
Trade adjustment activities ¹	(10,000)	900
Unemployment compensation for Federal employees and ex-servicemen (UCFEX) ²	(-11,155)	
Total, Labor.....		1,719
Post Office:		
Public enterprise funds—contribution to the postal fund.....	49,500	47,393
Authorization and limitation on use of postal fund operations (growth in mail volume).....	(41,500)	
Transportation.....	(8,000)	
Total, Post Office.....	49,500	47,393
State:		
Emergencies in the diplomatic and consular service (evacuation of Indonesia, etc.).....	500	300
Payment to Foreign Service retirement fund.....	45	45
American sections, international commissions (Lake Ontario Claims Tribunal).....	32	32
Total, State.....	577	377
Treasury:		
Office of the Secretary: Salaries and expenses (wage board increase).....	24	23
Bureau of Customs (wage board increase).....	120	115
Total, Treasury.....	144	138
General Services Administration: Real property activities, operating ex- penses (wage board increases).....	3,700	3,700
Veterans' Administration:		
Compensation and pensions:		
Veterans service-connected compensation (increase in caseload and average payments).....	136,953	136,900
Veterans non-service-connected pensions (increase in average annual payments).....	100,936	100,900
Other veterans benefits and services (1966 primarily covers costs of one-time death gratuity provided by Public Law 89-214).....	50,111	50,100
Readjustment benefits (funds recent legislation liberalizing the vocational rehabilitation program for disabled veterans and increased educa- tional allowance for war orphans and children of totally disabled veterans).....	5,000	5,000
Total, Veterans' Administration.....	293,000	292,900
Civil Service Commission: Salaries and expenses.....	720	610
Commission on Civil Rights: Salaries and expenses.....	442	173
Equal Employment Opportunity Commission: Salaries and expenses.....	690	632
National Capital Planning Commission: Added printing costs.....	50	50
Railroad Retirement Board (limitation on salaries and expenses).....	(850)	(850)
Selective Service System: Salaries and expenses.....	11,594	10,600
Smithsonian Institution: Salaries and expenses.....	166	161
National Gallery of Art: Salaries and expenses.....	24	23
District of Columbia: Federal payment to District of Columbia (1966 supple- mental within 1966 authorization).....	5,700	5,700

¹ Proposed transfer from UCFEX.² Proposed transfer to previous 4 Labor Department items.

C. Supplementals for pay increase purposes

[In thousands of dollars]

	1966	
	New obligation authority	Expenditures
Military pay increases:		
Department of Commerce.....	152	152
Department of Defense:		
Military.....	761,100	742,000
Civil: Corps of Engineers.....	37	34
Department of Health, Education, and Welfare.....	785	785
Department of Justice.....	40	36
Treasury Department.....	11,450	11,450
Other independent agencies: Selective Service System.....	185	185
Total supplementals, military pay increases.....	773,749	754,642
Civilian pay increases:		
Legislative branch.....	2,535	2,511
The judiciary.....	1,141	1,079
Executive Office of the President.....	162	156
Agriculture.....	14,407	14,585
Commerce.....	4,192	3,877
Defense:		
Military.....	102,421	94,000
Civil:		
Corps of Engineers.....	1,268	1,176
Other.....	511	466
Health, Education, and Welfare.....	1,914	1,848
Housing and Urban Development.....	405	405
Interior.....	6,735	6,427
Justice.....	7,201	6,495
Post Office.....	205,770	195,714
State.....	1,337	1,270
Treasury.....	16,706	16,097
Federal Aviation Agency.....	9,616	9,110
General Services Administration.....	2,042	1,935
Veterans' Administration.....	18,821	18,365
Other independent agencies.....	7,196	6,837
Civil Aeronautics Board.....	(240)	
Civil Service Commission.....	(528)	
Commission on Civil Rights.....	(26)	
Equal Employment Opportunity Commission.....	(52)	
Export-Import Bank.....	(55)	
Farm Credit Administration.....	(28)	
Federal Coal Mine Safety Board of Review.....	(1)	
Federal Communications Commission.....	(346)	
Federal Home Loan Bank Board.....	(81)	
Federal Maritime Commission.....	(68)	
Federal Mediation and Conciliation Service.....	(115)	
Federal Power Commission.....	(300)	
Federal Trade Commission.....	(312)	
General Accounting Office.....	(1,035)	
Advisory Commission on Intergovernmental Relations.....	(5)	
Interstate Commerce Commission.....	(625)	
National Capital Planning Commission.....	(18)	
National Labor Relations Board.....	(548)	
National Mediation Board.....	(27)	
Railroad Retirement Board.....	(225)	
Renegotiation Board.....	(30)	
Selective Service System.....	(902)	
Small Business Administration.....	(150)	
Smithsonian Institution.....	(287)	
National Gallery of Art.....	(42)	
Tariff Commission.....	(46)	
Tax Court of the United States.....	(32)	
U.S. Information Agency.....	(1,461)	
Total supplementals, civilian pay increases.....	404,380	382,353

Mr. WHITTEN. I have a few more questions that I would like to ask. They are asked not to belabor the point or to create troubles for you, but to get you to share some of ours.

REDUCTIONS IN CERTAIN ON-GOING PROGRAMS

I serve on two subcommittees which have dealt to a great degree with Appalachia appropriations, which we have supported. In the present budget I note, however, that you are cutting the school lunch, school milk programs, and the development and protection of natural resources for the whole United States, while you ask for increases in those same general areas for Appalachia. I make that contrast because, had you intimated to the Congress that Appalachia funds would be taken out of the national programs, I think it fair to wonder how you would have come out.

Mr. SCHULTZE. Mr. Whitten, the total Appalachia program in terms of appropriations will be significantly reduced this year. It is a little difficult—

Mr. WHITTEN. I am pointing out that Appalachia in this budget would be at the expense of the rest of the country.

Mr. SCHULTZE. I don't have those specific numbers at my fingertips. I think what you may be getting at are certain parts of the Appalachia program which will increase.

Mr. WHITTEN. The ones that I have seen are in agriculture and in public works. In the same bill you are recommending cuts in similar national programs.

Mr. SCHULTZE. That is right.

Mr. WHITTEN. Could we have those figures?

Mr. SCHULTZE. I can get those figures. I don't have them at my finger tips.

Mr. WHITTEN. I wish you would.

(The following was furnished for the record:)

Special Appalachian program related to comparable national programs

[In thousands of dollars]

	New obligational authority					
	Comparable national program			Special Appalachian program		
	1965	1966	1967	1965	1966	1967
Agriculture:						
Agricultural Stabilization and Conservation Service:						
Appalachian region conservation program				7,000		4,375
Agricultural conservation program	220,000	220,000	100,000			
Agricultural conservation program (liquidation of contract authorization)	(225,000)	(220,000)	(220,000)			
Forest Service: Timber development organization loans and technical assistance		(¹)		1,000		500
Commerce:						
Appalachian assistance:						
Grants for local development districts and for research and demonstrations				2,500		3,000
Supplemental grants-in-aid				45,000		35,000
Economic Development Administration: Development facilities grants		203,200	175,140			
Bureau of Public Roads:						
Appalachian development highway system				200,000		130,000
Trust fund: Federal-aid highways (liquidation of contract authorization)	(3,898,250)	(3,898,400)	(3,970,000)			
Defense, Civil: Army Corps of Engineers, civil—General investigations (amount for special Appalachian study is a separate subactivity and included within total program)	24,194	25,465	32,078	1,500		1,800
Health, Education, and Welfare:						
Office of Education: Expansion and improvement of vocational education (amount for special Appalachian program is included as a separate activity in total program)	166,296	253,491	250,791	8,000		8,000
Public Health Service: Hospital construction activities (amount for special Appalachian program is included as a separate activity in total program)	266,907	303,294	313,544	21,000		2,500
Federal Water Pollution Control Administration: Grants for waste treatment works construction and sewer overflow control (amount for special Appalachian program is included as a separate activity in total program)	93,000	141,000	173,000	3,000		3,000
Interior:						
Bureau of Mines: Appalachian region mining area restoration		(¹)		16,000		10,566
Bureau of Sport Fisheries and Wildlife:						
Appalachian region fish and wildlife restoration projects				1,350		1,350
Federal-aid fish restoration and management	7,342	7,373	6,500			
Federal aid in wildlife restoration	17,455	20,201	17,170			
Appalachian Regional Commission: Salaries and expenses		(¹)		1,290		1,110
Total funds requested under authority of Public Law 89-4				307,640		201,201

¹ None.

NOTE.—Amounts appropriated in 1965 under authority of the Appalachian Act were provided Apr. 30, 1965, to be available until June 30, 1966; practically all of the funds will be used in fiscal 1966.

SCHOOL LUNCH PROGRAM REDUCTION

Mr. WHITTEN. Last fall, Mr. Chairman, I went to New York City and went to the 14th Street markets, the surrounding area, and much of Harlem. I went to Detroit and also I went to Chicago. I find that we all have problems.

In a school in Detroit I was told that unemployment in that area was under 3 percent, or around 3 percent, and the rates of pay from \$2.50 to \$3 per hour. We went over and reviewed the school lunch program with the school authorities. We were told that notwithstanding this income in these families, that frequently the school lunch was the only hot meal that the children got in that section of Detroit, where, as I said, there was relatively no unemployment and the rates of pay are exceedingly high.

I believe that you stated that the school lunches had increased 85 percent in a very short time. Yet you recommend in this budget that we cut the school lunch program from \$157 million down to \$138 million?

Mr. SCHULTZE. Yes, the reduction is \$19 million, but it is from \$202 million to \$183 million, counting funds transferred to the program from section 32.

Mr. WHITTEN. Are you serious in that, Mr. Schultze?

Mr. SCHULTZE. Yes, sir. What is involved in this is a modest reduction in the rates of reimbursement.

Mr. WHITTEN. From what rate to what rate?

Mr. SCHULTZE. The rate is reduced from 5 cents to 4 cents on the average. We have at the same time increased from \$2 million to \$6.5 million the amount specifically for areas of very low income. So this program would provide for more school lunches, a slightly lower rate of reimbursement throughout the Nation, but a higher Federal contribution in really needy areas.

Mr. WHITTEN. The illustration I gave you in Detroit where the unemployment is under 3 percent, and the rates of pay are \$2.50 to \$3 an hour, you would take away from that school school-lunch program funds and allot them somewhere else, is that right?

Mr. SCHULTZE. This depends on——

Mr. WHITTEN. Providing my information is correct?

Mr. SCHULTZE. Depending on the specific income levels.

Mr. WHITTEN. Taking my facts as correct, that is the type school you take away from?

Mr. SCHULTZE. Not necessarily so, Mr. Whitten.

Mr. WHITTEN. Why not?

Mr. SCHULTZE. The reason is that in a lot of these areas, the unemployment rate is low and the wage rates are high, but a very large number of the children involved come from broken families with no employable person. You may very well have high wages and low unemployment but at the same time a very large number of families with very little income coming in.

I don't know the specific case in the school district——

Mr. WHITTEN. I could give the name but I do not care to give it here. I could give it to you privately. I use it by way of illustration only. I am sure that the same type of situation exists in my part of the country as well as others. I happen to know about this one.

You want to increase substantially the funds for food stamps in this budget. Have you investigated the handling of the program before you made this recommendation?

Mr. SCHULTZE. Personally, I have not. We do have the recommendations from the Department of Agriculture on this. There are exceptions, of course, but, in general, the food-stamp program has turned out to be a pretty effective and efficient way of getting decent diets to needy people.

Mr. WHITTEN. I supported the program and made the motion on the floor to increase it beyond what the committee had done earlier. I am compelled to compare the two programs, as handled by the budget.

Mr. SCHULTZE. The basic philosophy that was used in all of these matters that you have raised is that the overall amounts ought to be channeled more heavily into areas of need, and that less Federal money should go into an evenhanded distribution of funds to school districts and children whose parents' incomes are such that they don't need it. This is the basic philosophy—

CUTS IN AGRICULTURE BUDGETS

Mr. WHITTEN. I am glad you used that word "evenhanded." If you study the budget here, you have cut those funds that are distributed by a formula written by the Congress on a national basis and increased those funds given at the wishes of the Secretaries. The increases are those where the Secretary could put his finger and say, "You shall have it to one area and you shall not to another. You cut those programs that are distributed, to use your word, evenhanded, under a formula prescribed by Congress. You realize that, do you not?"

Mr. SCHULTZE. All right.

Mr. WHITTEN. Let me ask you to check the figures and you will find this to be true.

Mr. SCHULTZE. I am sure that I wouldn't have put it that way. It is clearly true that if you want to use available funds to the maximum possible advantage—precisely for those who don't have the income—this is one of the inevitable results.

Mr. WHITTEN. Proceeding a little further, last year we were put in a straitjacket in the Department of Agriculture.

As I recall, last year, you recommended that the Department of Agriculture be cut as much as all the rest of the Government, approximately. This year we have a budget which is cut in some instances in anticipation of legislation.

Throughout your whole budget, what is the sum total of the reductions in your budget that you have made contingent upon legislation being passed?

Could you give me a rough idea how much is in there at this point?

Mr. SCHULTZE. It is a little over \$3 billion in expenditures.

Mr. WHITTEN. How much effort last year was made to get bills introduced to carry out such legislation?

Mr. SCHULTZE. There are two points I can make on that. First, one of the major pieces of legislation which was introduced and passed in 1964 was for sales of participations in mortgages in a number of programs of the Federal Government. Substantial effort was put

into getting that through and we did get it through. Last year we tried to accomplish the same thing on small business loan participations. We were not able to get it through the Congress in time but it did go through the subcommittee of the Senate which handles it.

We did make substantial efforts to get that one through. Those are two examples.

Mr. WHITTEN. Meat inspection. I am greatly disturbed how that grows, myself. We now provide inspection processing of previously inspected meats. I was here when another Congress attempted to have the packers pay this cost. It did not last. If you did they in turn would charge it to the consumers and the producers.

Mr. SCHULTZE. Some part of it.

Mr. WHITTEN. Do you have any basis for thinking there is any hope of that happening?

Mr. SCHULTZE. Mr. Congressman, I suspected if we only sent up legislation on reduction proposals that we were sure would get through the Congress in 1 year, we would send up very few. Admittedly this is another matter, but I might also remind the Congressman that it took 15 years to pass medicare. We didn't give up trying.

Mr. WHITTEN. You seem to prove my case. From what you have just said there is very little reason to take out any advance money that you believe could be saved from the proposed legislation. You just proved there is very little reason for it.

Mr. SCHULTZE. This is the second year we are trying. We think our chances may be a little better.

PAST RECORD ON SALES OF GOVERNMENT-HELD LOANS

Mr. WHITTEN. To go back to the Farmers Home Administration proposed sale of Government debentures. It is my recollection that on several occasions you have tried this method and that buyers were not to be found. On other occasions you could.

Could you provide for the record the history of this approach?

Mr. SCHULTZE. I will be glad to. Our record has been fairly good on this.

(The following was supplied for the record:)

For the fiscal years 1963, 1964, and 1965—the three most recent complete fiscal years—two of the original budget forecasts underestimated the actual asset sales and one overestimated the actual results. The January 1962 estimate of sales for fiscal 1963 was \$314 million; actual sales totaled \$1,142 million. In January 1963, estimated sales for fiscal 1964 were \$961 million; actual sales realized were \$1,077 million. In January 1964, sales for fiscal 1965 were estimated at \$2,274 million; actual sales were \$1,564 million.

Mr. WHITTEN. The point I make is you might have the best of intentions but in the money market the buyers determine your success.

If the prevailing interest rate for money should climb on up, it is doubtful if FHA paper could be sold.

Mr. SCHULTZE. The other side of this is that we would, in turn, attempt to adjust the rates we would offer to take account of the market.

Mr. WHITTEN. Provided the law let you?

Mr. SCHULTZE. Correct.

Mr. WHITTEN. There again you are dependent on the Congress passing legislation?

Mr. SCHULTZE. Correct.

Mr. WHITTEN. As of today, nobody has introduced such a measure.

Mr. SCHULTZE. Correct.

CUTS PROPOSED IN REA LOAN FUNDS

Mr. WHITTEN. Turning to the REA, through the years we have been awfully proud of the record of the REA. I think that the provision of electricity to the American farms has enabled a little over 7 percent of our people to free 93 percent to fight in Vietnam, to support defense and the general economy. The record of repayment by REA borrowers is about 99.999 percent. With that record how can it be sound for you to limit the funds that may be loaned for essential needs such as to rephase lines.

It must be admitted that the REA systems are repaying a tremendous amount of money to the Government, on prior loans, money which goes into the Treasury. Will you tell us the basis for your asking that we reduce funds available on a loan basis, which are repaid, with interest, under those conditions?

Mr. SCHULTZE. Essentially there are a number of points to make on that, Mr. Whitten. First, I think it was mentioned this morning that we had reduced the REA to \$220 million in 1967. Actually the program level contemplated in the budget is \$270 million using \$50 million of carryover. So even though the new obligational authority is down to \$220 million, the program level is \$270 million.

Point No. 2. This again is a case of degree. The program level proposed is not by any means a statement on the part of the administration of any dissatisfaction with the results accomplished through the REA program. This is a year in which a number of postponements, deferrals, and reductions have been made in which we believe that the funds provided are sufficient to allow the REA co-ops to move ahead with their essential needs but admittedly at a somewhat lower rate than they would like.

Mr. WHITTEN. You could make next year's loan authorization look large compared to this year's actual loans by not making any loans this year. If you are going to compare 1 year against the other, let us compare the same things, each year's loan ceiling.

Mr. SCHULTZE. To some extent that is true.

Mr. WHITTEN. You can make that comparison look good any way if you wish to.

PROPOSED CUTS IN CERTAIN CONSERVATION AND NATURAL RESOURCE PROGRAMS

Turning now to the protection and development of natural resources, it was my privilege in 1959 to offer a motion to send back to President Eisenhower his public works appropriation bill, after the House had failed to override his veto, with the new projects the President objected to still intact. This time we overrode his veto. At that time, I was supported by the members of the Appropriations Committee and by the Congress. It was said at the time that it was the only time in history that the Congress has sent a bill back to the President with the objected to matter intact and overrode his veto on the second

go-round. Many people said this action by the Democratic Congress elected the Democratic ticket. At that time I said the more we owe, the greater our obligation at home and abroad, the more imperative it is that we protect our natural resources.

What cuts have you made in the agriculture conservation program and in the public works programs? How much do you recommend in projects which will protect the base on which all these other things depend?

Mr. SCHULTZE. In response, I would like to make a number of points. Again, I will have to supply a good bit for the record. I cannot flip these figures off my fingertips.

Mr. WHITTEN. That includes the agricultural conservation program?

Mr. SCHULTZE. Right. I will give you an answer to that.

I would like to point out that what we did was attempt, and again reasonable men can differ, but we attempted to arrive at public works programs with a balanced approach. We did not attempt a no-new-starts policy. We did, at the same time—in view of the difficulties in this budget—reduce the number of new starts below last year. In the case of the Corps of Engineers, the number of new starts comes down from 40-some to 25. In the case of the small watershed, Public Law 566 program, the number comes down from 80 to 35. We attempted to bring these down but still to provide a substantial number of new starts, more or less reflecting a budget which allows us to go ahead but admittedly at a lower rate than last year.

In terms of ongoing construction, we attempted as far as possible to stretch out some of these projects, but not to stretch them out so that they had a major untoward effect upon the results of the project. We attempted, as far as I know in every case, not to stretch the flood protection projects out beyond another flood season although we might stretch the completion out 4, 5, 6 months.

Mr. WHITTEN. Now you answered why. How much?

Mr. SCHULTZE. I will supply the precise figures for the record.

(The following information was furnished:)

The following compares fiscal year 1966 and 1967 budget estimates for the major public works programs, and for the agricultural conservation program:

[In millions of dollars]

	1966		1967		Change	
	New obligational authority	Expenditures	New obligational authority	Expenditures	New obligational authority	Expenditures
Corps of Engineers:						
Construction.....	993	901	952	951	-41	+50
Mississippi River and tributaries.....	60	60	50	50	-----	-----
Bureau of Reclamation:						
Construction.....	197	190	178	175	-19	-15
Upper Colorado River Basin construction.....	44	45	39	41	-5	-4
Soil Conservation Service:						
Construction.....	62	61	62	66	-----	+5
Agricultural conservation program.....	220	219	100	210	-120	-9

Mr. STAATS. On an expenditure basis, Congressman, on agricultural conservation projects the record will show that they are estimated about the same next year as this year. That is because of the

authority provided in 1966. In the case of the Corps of Engineers, the amount goes up because of commitments made in prior years which will be coming due in 1967.

In the case of the Bureau of Reclamation spending for construction goes down somewhat. For watershed project construction there is an increase. This is on an expenditure basis, not on an appropriations basis.

Mr. WHITTEN. On the appropriation basis, what does it do?

Mr. STAATS. For the Corps of Engineers and the Bureau of Reclamation there is a decrease.

Mr. WHITTEN. The expenditure basis means carry it over from last year?

Mr. STAATS. That is correct.

Mr. WHITTEN. By not spending last year's funds, you make yourself look better for the coming year by spending more than last year?

Mr. STAATS. In most cases it is a normal expenditure pattern where your expenditures are made in 1967 on authorizations made in 1966.

Mr. WHITTEN. So it comes back, as I get it now, that regardless of the merits of the new programs, your budget proposes that they be financed at the expense of protecting natural resources, including soil conservation, reducing REA, reducing the school lunch program and the special milk program among others?

Mr. SCHULTZE. I would quarrel with one point in that. This is the fact of, I think, an implicit criticism of putting in the budget savings from legislation which has not passed yet. We put in the budget both kinds of legislation, legislation which requires expenditure increases and legislation which leads to expenditure decreases.

Mr. WHITTEN. Do you not think that to rely on legislation that has not even been introduced here in this second year of the session, that at most that is wishful thinking?

Mr. SCHULTZE. No, sir; we firmly intend to introduce this legislation. In the case of the sale of assets we went right down to the wire. It is a complete piece of legislation.

THE BUDGET FORMULATION PROCESS

Mr. WHITTEN. Mr. Schultze, would you please explain briefly the budget formulation process? How do these figures get built up by the departments, say Corps of Engineers, or Agriculture or HEW? In a nutshell, describe that. Do they come to you with a package and you tell them how much they can have and they go back and redesign it?

Mr. SCHULTZE. No, sir.

Mr. WHITTEN. Tell us how it happens in your own way, briefly.

Mr. SCHULTZE. May I have 15 seconds to compose my thoughts on how best to say this?

Mr. WHITTEN. I realize that is necessary.

Mr. SCHULTZE. I think the first thing to say on this is that the process of coming out with the final set of documents which will be delivered to you gentlemen next January is something that starts practically now. In a more formal sense it starts with a letter from the Bureau of the Budget to the agencies, usually in the early spring. This

launches what we call our preview exercise, in which we ask the agencies to submit to us their plans and programs for the succeeding year and several years ahead. After considering these plans and programs, we meet with the agencies and discuss with them not the nickels and dimes in great detail, but their basic programs and basic expenditure thrust. On the basis of this, the Bureau of the Budget, the President, and the agencies have a better idea of the overall framework of the budget problem coming up because we finish this preview process sometime in middle or late summer.

We then move from the so-called preview process into the fall budget process in which again, on the basis of a request from us, the agencies submit to the BOB their formal budgetary requests for the coming year. Both at the various levels of staff and at the top level of the Bureau, there is constant communication and discussion with the agencies. The process does not lead up to one dramatic confrontation in which an agency asks for \$3.6 billion and we say, "Here is \$3 billion, you go back and we don't care what you do but spread \$3 billion around." Rather it is done as you gentlemen do, on a program-by-program detailed basis of discussion back and forth.

After those discussions, we are prepared—"we" being the BOB—to make recommendations to the President as a result of all these discussions. We make known to the agencies what that recommendation is going to be. They then have a chance to come in and appeal to us, and say "We believe this recommendation should not be made. You should change it."

Finally, each one has a chance on any item to appeal to the President. At no one time in this, as I say, is there some dramatic confrontation, but rather the final decision comes about through a series of discussions all the way through the year leading up to some final figure. So that, for example, we would not go back to an agency and conduct a budget process simply by saying, "We don't care what you fellows have in mind but you can only have \$3 billion. You figure out where it is going to go. We don't want to bother about program details." This is done on a programmatic basis. Obviously in this process there are numerous disagreements. I don't think I could even give you any kind of a scorecard on who wins most often. It is a mutual process all the way through.

Mr. WHITTEN. I hope you will feel free to correct this in any way you would like. Keep it concise, but we want the rounded story of how the process works.

Mr. SCHULTZE. Right.

(The following information was furnished for the record:)

PREPARATION OF THE FEDERAL BUDGET

The preparation of the Federal budget for any fiscal year covers at least 18 months. Thus, each spring attention is directed to the planning of programs for the next fiscal year, which will begin the next July; and to the development of preliminary plans and policies for the succeeding fiscal year. Even during the period of specific work on a particular budget, attention is also given to projecting the effect of program decisions on subsequent budgets and to identifying major issues or problems affecting the budget in the future.

The procedure changes somewhat from year to year, depending on administrative situation and current conditions. Currently, for example, efforts are being made to refine existing and develop new planning and programing techniques and to integrate them more closely with the budget process. The results of these efforts should become a significant factor in the budget process in the future.

Preliminary steps

Under the newly established integrated planning-programing-budgeting system each major agency will around the 1st of May, submit to the Bureau of the Budget its program and financial plan which expresses in financial and non-financial quantitative terms the goals, objectives, and planned accomplishments for the next several fiscal years, usually five. The plan is a comprehensive document covering all the activities of the agency and dividing such activities into output oriented program categories; i.e., categories which reflect what is to be accomplished by each program. It reflects the agency head's judgment on what should be the agency's future course of action to meet the Nation's needs with which his agency is concerned.

The latest approved plan is accompanied by a program memorandum, setting forth analyses of the programing, possible alternative goals, and alternative methods for achieving them. Techniques such as cost analysis, operation research, and cost-benefit analysis are utilized in the agency to assist in arriving and supporting the recommendations and alternatives set forth in the program memorandum.

The agency submissions, are subjected to a critical examination in late May or early June by Bureau of the Budget examiners who are assigned continuing responsibility with respect to agency programs. The issues, agency program plans, and the examiners' recommendations are discussed with the Director of the Bureau of the Budget. During the entire process efforts are made by the agencies and by the Bureau to weed out marginal and obsolete activities so that resources may be shifted to more essential activities.

After the Bureau review is complete, Bureau recommendations on the plans and issues are discussed with the President. When the President has reviewed the recommendations, the agency head is notified, and usually the Director meets with him to discuss the effect of the review process on the agency's programs. Agency program plans are also updated to reflect the results of this process.

Concurrent with preparation of program and financial plans in the agencies, staff of the Bureau of the Budget, in cooperation with staff of the Treasury Department and the Council of Economic Advisers review the long-range effect of agency programs on the fiscal guidelines set forth in the latest budget. They develop tentative assumptions on the economic environment which may govern the preparation of future budgets, and make projections of revenues to be expected under these assumptions. The budgetary outlook is discussed with the President, and sometimes with the Cabinet.

After the review of the agency program plans by the Bureau of the Budget preliminary estimates of their effect on fiscal requirements are developed. The Director recommends the fiscal policies to be followed in preparing the budget, as discussed and agreed to by the Secretary of the Treasury and the Chairman of the Council of Economic Advisers. At this time the Director and the President have the benefit of revised estimates of revenues and economic prospects developed by the Bureau of the Budget, the Treasury Department, and the Council of Economic Advisers. The President's decision as to policies are communicated to the heads of the various agencies within the executive branch for their guidance in preparing their budgets.

Compilation and submission of agency estimates

During the next several months agencies compile the detailed schedules and supporting information in accordance with the instructions prescribed by the Bureau of the Budget (Circular No. A-11).

The process of compiling the detailed estimates begins with the personnel who are responsible for carrying out the actual operations and these estimates are reviewed at various levels in each agency. At each level of review, of course, the viewpoint is different—the regional office must consider the estimates of each field station in relation to other field stations and to the total requirements for the region. Finally, at the departmental level, the estimates for bureaus and major programs must be judged in comparison with other bureaus and programs and with the total for the agency.

Agency budget submissions are due in the Bureau of the Budget in September. In order that the budget document may reflect the complete situation, the submission covers all accounts in which money is available for obligation or expenditure, whether or not any action by Congress is requested. The submissions reflect amounts specifically requested for the budget year for continuing activities being carried on at the date of the budget submission, as well as for items "proposed for separate transmittal," covering anticipated additional requirements for both the current and budget years which are foreseeable at that time.

Review of agency estimates in the Bureau of the Budget

When the estimates are received in the Bureau of the Budget, they are referred to the examiners assigned to the programs involved. The examiners must be thoroughly familiar with the President's budget policy and previous congressional action, as well as with the programs of the agency and their relationship to activities of other agencies. The examiners at this time give considerable attention to the basis for the individual estimates—the volume of work on hand and forecast; the method by which the agency proposes to accomplish its objectives; and the estimates of requirements in terms of numbers of people. They review past performance, check the accuracy of factual information presented, and consider the future implications of the program. They identify matters of major importance and the issues involved for discussion with agency representatives at hearings.

After the hearings are completed, the examiners prepare their recommendations for the Director's review. This review concentrates attention principally on the major items involving Presidential policy, but also provides a test check on other aspects of the recommendations. Assumptions with respect to the economic outlook and the international situation are brought up to date as a basis for this review.

Examining staff sometimes discuss the Director's tentative decisions with the budget officer of the agency to identify and narrow the issues which require detailed Presidential attention.

The process of review occupies the Bureau of the Budget from the latter part of September until the beginning of December. During this period, the economic outlook is again assessed by the Treasury Department, the Council of Economic Advisers, and the Bureau, and revenue estimates are jointly agreed to for presentation to the President.

Decision by the President

As portions of the Budget Bureau review are completed, tables and analyses are prepared to present the Director's recommendations to the President, identifying the issues involved. The problem of recommending programs which will meet the most urgent needs of the country, and still be prudent within the constraint imposed by the availability of resources, is complicated by the large segment of budget expenditures which is relatively unaffected by the budget process—for the last few years such items as interest on the public debt, veterans pensions, grants for public assistance, and agricultural price support have accounted for over half of the total budget expenditures other than the national defense items, or about 25 percent of the grand total. The level of these expenditures depends upon provisions of the laws which authorized the programs and on other factors not readily subject to annual budgetary control. As soon as the President makes his decisions on program and fiscal policies, each agency is notified of these decisions, including the amounts allowed for that agency. Occasionally an agency appeals (through the Director) to obtain an upward revision of the allowance. Final decision depends on the President's position in the matter.

Preparation of the budget document

When the agency receives its budget allowance, the estimates are revised to conform with the President's decisions for inclusion in the printed budget documents.

As soon as revisions of the individual schedules for each agency are completed, the figures from the individual appropriation and authorization schedules are summarized for each agency. Figures from the agency summaries are then consolidated to make up the tables which, together with final revenue estimates prepared by the Treasury Department, set forth the budget totals.

Mr. WHITTEN. In the record, I hope you compare appropriation with appropriation and obligational authority with obligational authority. Let us be sure to avoid any one horse and one rabbit, to make two, comparisons.

A while ago, we were talking of public works appropriations and expenditures. Expenditures were up, but appropriations were down. If we are going to compare, let us compare appropriation with appropriation, and obligational authority with obligational authority.

PROPOSED CUT IN ACP PROGRAM

One other thing: In all the years I have been here, the agriculture conservation program for soil conservation, we have had about 1,200,000 participants. The folks who participate spend about \$2 of their money and effort to each Federal dollar. To me it is so far and ahead of many, many programs that you hope to increase, yet each and every year the Budget Bureau has drastically cut that program. You recommend a cut for next year.

Mr. SCHULTZE. There again, Mr. Whitten, this is the result of a mutual exchange between the Budget Bureau and the Department of Agriculture. I don't want to pin anything on any one person of the President's recommendations.

Mr. WHITTEN. The Department of Agriculture each year under questioning agreed they asked for \$220 million plus administrative funds. It is the BOB, and it has been, according to the record. What prejudice is there against this particular program in the BOB?

Mr. SCHULTZE. There is no prejudice.

Mr. WHITTEN. Who handles it? What section?

Mr. SCHULTZE. In the first place, anything that is done in terms of recommendations to the President from the BOB are my responsibilities and not those of anyone on the staff.

Mr. WHITTEN. You are not familiar with the details?

Mr. SCHULTZE. If you are asking, Mr. Whitten, am I an expert in the agriculture conservation program, no, I am not.

Mr. WHITTEN. Could you discuss the subject as you see it?

Mr. SCHULTZE. What I know would not take very long.

Mr. WHITTEN. Could they have time, Mr. Chairman?

Mr. MAHON. Yes.

Mr. SCHULTZE. I would like to hit one point. This has to be considered in the context of the entire agriculture situation, including the relationship of demand and supply in agriculture. We have the new cropland adjustment program, which has significant conservation features in it—and if I remember correctly, is probably funded in an order of magnitude larger than the amounts we have been discussing. We also have the Great Plains program involved in this, and we have the small watersheds program involved to some extent. So there are a substantial number of conservation programs in the conservation area.

Looking at where the admittedly scarce funds this year could be distributed, it seemed to us that granted the budgetary situation, granted the agriculture demand-and-supply situation, granted the other measures we are taking for agriculture conservation, it seemed wise to put no more than \$100 million into the agricultural conservation program.

Mr. WHITTEN. I would not try to hold you responsible for the action of the Bureau of the Budget in prior years, but could you tell us why the cut was recommended in these other years when these things did not prevail?

Mr. SCHULTZE. In the first place, again, my recollection is, Mr. Whitten, that the cut this year is a little bit more severe than it was in the prior years. I believe this reflects the overall tightness of the budget. In the other years the cut has essentially come from an eval-

uation of priorities which has been made. Admittedly between the Congress and the administration there has been a difference in terms of the evaluation of priority about that program for a number of years.

Mr. WHITTEN. Mr. Schultze, thank you. You have shown some knowledge of the basis on which you supported it. If I may have appeared to belabor it, I have the responsibility of trying to get this through the Congress. You can imagine what kind of fix we would be in if we took a bill to the floor of the House reducing funds for programs where funds are distributed to States by formula and gave them to the new programs where the executive department could distribute such funds as it wished. Thank you, Mr. Schultze.

Mr. MAHON. What is the overall budget for agriculture for fiscal 1967?

Mr. SCHULTZE. Expenditures or appropriations?

Mr. MAHON. Any way. Is it about \$7 billion?

Mr. SCHULTZE. \$6 billion something. I better check that.

Mr. MAHON. Fiscal 1965 and 1966 also?

Mr. SCHULTZE. Yes, sir.

(The following information was provided for the record:)

The overall budget for the Department of Agriculture is as follows:

[In thousands of dollars]

	Fiscal years		
	1965 actual	1966 estimate	1967 estimate
New obligational authority.....	7,432,540	8,429,826	6,615,198
Expenditures.....	7,298,052	6,888,648	5,798,314

Mr. MAHON. Mr. Jonas has some questions.

Mr. JONAS. Thank you, Mr. Chairman.

BALANCED BUDGET IN A BALANCED ECONOMY

Mr. Secretary, I have heard administration spokesmen, and I think the President himself, say that one objective of the administration is a "balanced budget in a balanced economy." Is that phrase familiar to you?

Secretary FOWLER. Yes, sir.

Mr. JONAS. In the first several years following 1961, we were engaged in stimulating the economy. That was offered as an excuse for the continuing deficit. Now we are engaged in putting restraints on the economy and this leads me to conclude that somewhere along the line we hit a "balanced economy."

Would you say when that took place and when the change from stimulation to restraint began?

Secretary FOWLER. As I said earlier, Mr. Jonas, we are moving from a policy of stimulation to one of restraint. Whether in submitting the 1967 budget we have passed the point from a stimulating budget to a restraining budget is a matter of considerable debate—and will continue to be such. Let me say, as far as emphasis is concerned, that we believe the measures included in this budget should furnish some restraining influence against potential excessive exuberance in the

economy, without harming the healthy growth of the economy we depend on.

In our zeal to avoid the onslaught of inflation, we want to take care that in trying to prevent the disease we do not imperil the patient. At the same time, I think this budget recognizes that the most pressing danger before us—the avoidance of which will require a great deal of care—is the danger of economic excess, not economic deficiency. I would characterize the situation as one in which a nearly balanced budget in a nearly balanced economy is about what is contemplated.

Mr. JONAS. I cannot help but be of the opinion that in rescinding the excise tax cuts that just went into effect in January, as well as the proposal to increase withholdings and force taxpayers, corporate and otherwise, to pay more taxes in a given year than they have previously been paying normally—are restraining influences on the economy.

Secretary FOWLER. They are both restraining influences.

Mr. JONAS. It would seem to me that if we have therefore moved from a stimulating activity to a restraining one we must have passed the point where we had a "balanced economy."

Secretary FOWLER. I think the point that is obvious to us all, and I have tried to delineate this in my statement, is that were it not for the special expenditures in Vietnam the 1967 budget could have been a budget of surplus in a near full employment economy.

Mr. JONAS. You are not taking into consideration, however, the effect of the stepped-up war in Vietnam and increased spending on the domestic front which stimulates business activity.

Secretary FOWLER. No one could foretell what the difference in the state of the economy would be, in terms of its rate of expansion, without Vietnam and with Vietnam. That is impossible to determine.

Mr. JONAS. I have been impressed by repeated statements today, by the Secretary and the Director, attributing the troubles we have with the budget to the war in Vietnam, and I would certainly say that stepped-up war activity has had a profound influence on the current budget. But I don't think either one of you have explained how much your projected increase in revenues from corporate taxpayers and individual taxpayers has been stimulated by this increased activity. It's bound to have had some effect.

Secretary FOWLER. It certainly has.

Mr. JONAS. What would be your estimate?

Secretary FOWLER. I do not have an estimate.

Mr. JONAS. You cannot have it just one way. If we blame the budget being out of kilter on the war in Vietnam, we have to recognize the fact that increased spending has had some stimulation on Government revenues.

Secretary FOWLER. Mr. Jonas, my only comment is that if you leave the special expenses of Vietnam off—and don't even take into account the so-called uncontrollable expenditure increases over last year's budget—you would have an expenditure figure of about \$102 billion for fiscal year 1967. While it is very difficult to give a precise estimate of what revenues would have been without Vietnam, there is a considerable body of opinion that would hold—based upon the rate at which the economy had been moving and was moving throughout 1965, the projections for industrial expansion and modernization, consumer expectations, and the other factors adverted to in my statement—that

it is quite likely that the revenues for fiscal 1967 would have substantially exceeded the expenditure figure for fiscal 1967 minus the special cost of Vietnam. While Secretary Dillon appeared before you a year ago and indicated that he thought it would be feasible to have a balanced budget in a balanced economy, as you referred to it, by fiscal year 1968, I believe events that have intervened since his appearance, excluding the Vietnam acceleration, would point to the likelihood that we could have had a balanced budget in a near balanced economy in fiscal year 1967.

U.S. GOLD STOCK SITUATION

Mr. JONAS. Mr. Secretary, how much gold did we lose last year?

Secretary FOWLER. We lost \$1,664 million worth of gold last year, Mr. Jonas.

Mr. JONAS. How much do we have on hand that is earmarked for foreign accounts?

Secretary FOWLER. We have on hand \$13,807 million worth of gold in our stock. None of this is earmarked for foreign accounts.

Mr. JONAS. How much of that would be required to take care of foreign demands if they were all made?

Secretary FOWLER. It depends upon what foreign demands are presented.

Mr. JONAS. If they were all presented?

Secretary FOWLER. There were approximately \$14 billion in official reserves at the end of 1965. In addition, dollars held in private hands amounted to a little over \$11 billion. Of course, only official holders of dollars can present them for gold. We do not recognize private presentations; although part of the private holdings could be turned in to central banks, and could be presented in that way. However, such an event is very unlikely to occur and no one familiar with monetary affairs would be concerned that the entire bill would be rendered for our gold. Central bankers holding dollars know the state of our gold supply, as well as the fact that a keystone of the international monetary system is their right to present dollars for gold. They would no more think of destroying that system than they would of destroying themselves.

Mr. JONAS. It turned out in the hearings last year before the Foreign Aid Committee that some 14 or 15 countries, recipients of foreign aid from the United States, withdrew gold. Is that trend continuing?

Secretary FOWLER. I don't know whether it has continued to that extent or not, Mr. Jonas, but I would certainly be the first to hasten to agree with you that that is an undesirable practice. I want to say, however, that our responsibilities for maintaining the international monetary system require that we do not reject, or screen, requests for gold when dollars are properly presented. If the practice you refer to is to be arrested, it would have to be done through the process of restricting foreign aid to those countries.

Mr. JONAS. There is no way you can keep from paying out gold when it is demanded by foreign central banks?

Secretary FOWLER. Not without endangering the present structure of the international monetary system.

Could I add a word about the \$1.664 billion decrease in the gold stock last year?

You will recall at the time Secretary Dillion appeared before this committee last year, the United States was in the midst of what might have been called a serious balance-of-payments crisis. In the last quarter of 1964 there had been a very substantial increase in the deficit on an annual rate basis it ran at a rate of a five and a half billion dollar deficit. The pattern of large deficits continued into the early part of 1965, primarily as a result of very large private capital outflows—loans by banks, nonfinancial institutions and direct investments. As you will remember, the serious nature of these large outflows resulted in the foundation of the President's February 10 balance-of-payments program, which, among other things, called upon banking institutions, other financial institutions, and nonbanking institutions to adopt voluntary restraints on their capital movements abroad. The program has been very successful. The point I want to make however, is that, while we lost \$1,664 million of gold last year, \$832 million of the gold outflow occurred in the first quarter and \$590 million was lost in the second quarter. By that time, however, it became clear to all concerned that the voluntary program was taking hold. In fact, the second quarter balance of payments showed the first surplus in 7 years. This change in direction tended to arrest the gold flow as witnessed by the fact the gold outflow was reduced to \$124 million in the third quarter last year, and still further in the fourth quarter to \$118 million.

The other fact I would like to mention is that a very large portion of the total outflow reflects the large takings by France based on the accumulation of dollars it acquired in the years preceding 1965. The outflow also included a \$259 million payment to the International Monetary Fund in connection with our subscription for the 25-percent quota increase Congress approved last year.

INFLATION FACTOR IN GNP INCREASE

Mr. JONAS. Mr. Secretary, what percentage of the increase in gross national product in the last 3, 4, 5 years do you attribute to price increases?

Secretary FOWLER. I would like to supply that accurately for the record, sir.

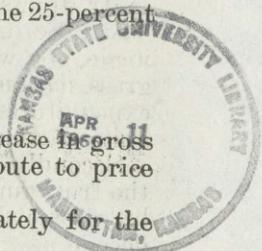
(The following material was submitted by the Treasury Department:)

Prices in the GNP Accounts for the Last 10 Years

[Dollars in billions]

	GNP change	Price increases	Percent ¹
	(1)	(2)	(3)
1955-56	\$21.2	\$13.9	66
1956-57	21.9	15.8	72
1957-58	6.2	11.3	182
1958-59	36.3	7.7	21
1959-60	20.2	8.1	40
1960-61	16.3	6.5	40
1961-62	40.2	6.0	15
1962-63	28.9	7.8	27
1963-64	39.5	9.9	25
1964-65	46.9	12.6	27

¹ Col. 2 divided by col. 1.



FACTORS CONTRIBUTING TO RECENT GNP GROWTH

Mr. JONAS. What part, if not all, of the \$145 billion cash budget expenditure projection for next year goes into the calculation of the gross national product?

Mr. SCHULTZE. In one way or the other, all of it affects gross national product.

Mr. JONAS. So, if we would increase Government spending by another \$50 billion, the gross national product would keep growing under that influence alone, would it not?

Secretary FOWLER. Mr. Jonas, the mainspring in the increase in gross national product that has characterized the last 3 or 4 years, and particularly the last 2 years, has not been an increase in Government expenditures. It has been the fact that the private sector has responded to new profit incentives and to the increase in consumer purchasing power that has been provided. The mainspring of this particular expansion, as distinct from some of the others that have occurred in the past, has been right there in that private sector.

Mr. JONAS. I would say certainly that has been the major contributing factor, but increased Government spending certainly goes into the computation of the figures that you come up with when you use the term gross national product. This money is expended by consumers.

Secretary FOWLER. That is right. However, in terms of the administrative budget, increased Government expenditures over the last 3 years have been kept to a minimum.

Mr. MAHON. The Director has a comment.

Mr. SCHULTZE. May I add a couple of points on that?

Mr. JONAS. Yes.

Mr. SCHULTZE. First, to supplement a point that the Secretary made, you will recall in the charts I presented that the proportion of gross national product accounted for by Federal consolidated cash expenditures and by administrative budget expenditures has not been rising. As a matter of fact, the general trend is slightly down.

Secondly, a significant part of cash expenditures is made through the trust funds, and in those trust funds the increase in revenues has been somewhat larger than the increase in expenditures over the last decade.

Mr. JONAS. The trust fund expenditures go into the economy. Virtually 100 percent of them.

Mr. SCHULTZE. Agreed, sir. The revenues to finance them, of course, come out of the economy mainly from payroll and gasoline taxes.

BUDGET OBLIGATIONS BY OBJECTS OF EXPENDITURE

Mr. JONAS. I was disappointed the budget submission this year does not contain a summary table on obligations by objects. We have been accustomed to having such a summary in the past. Can you tell us when we might expect one?

Mr. SCHULTZE. It is being readied, sir.

Mr. JONAS. We did not get it last year until June, when the hearings were almost over, and it becomes important when you realize that for travel of persons alone in last year's budget there was \$1,300 million. I, for one, would like to know how much travel is budgeted in this new budget, and the only way we can find that is to have a summary table.

Mr. SCHULTZE. Two things, Mr. Jonas: with respect to personal service objects, we do have that summarized now. With respect to travel, we can have that for you very shortly. The total summary by objects we should have in the not too distant future.

Mr. JONAS. Will you send it to the committee as soon as it is ready?

Mr. SCHULTZE. We will be glad to; yes, sir.
(The following information was provided for the record:)

Obligations by object class

[In millions of dollars]

Description	Administrative budget			Trust funds		
	1965 actual	1966 estimated	1967 estimated	1965 actual	1966 estimated	1967 estimated
Personal services and benefits.....	(32, 477)	(34, 600)	(37, 992)	(629)	(739)	(761)
11 Personnel compensation:						
Permanent positions.....	15, 157	15, 953	16, 999	533	594	640
Military personnel.....	9, 356	10, 043	11, 608			
Positions other than permanent.....	1, 192	1, 205	1, 298	18	26	24
Other personnel compensation.....	636	835	714	15	50	24
Special personal service payments.....	319	355	436	1	1	1
12 Personnel benefits, civilian personnel.....	1, 355	1, 434	1, 532	44	49	52
Personnel benefits, military personnel.....	2, 816	2, 914	3, 350			
13 Benefits for former personnel.....	1, 647	1, 862	2, 057	18	19	20
Contractual services and supplies.....	(49, 895)	(56, 664)	(60, 013)	(1, 291)	(1, 468)	(1, 580)
21 Travel and transportation of persons.....	1, 345	1, 417	1, 727	11	13	13
22 Transportation of things.....	3, 053	3, 146	3, 873	13	18	17
23 Rent, communications, and utilities.....	1, 916	2, 250	2, 410	42	52	56
24 Printing and reproduction.....	271	295	305	3	6	5
25 Other services.....	19, 524	21, 119	21, 152	998	1, 104	1, 199
Services of other agencies.....	1, 368	1, 366	1, 507	23	24	25
Payments to specified accounts.....	387	433	453	9	11	16
26 Supplies and materials.....	22, 031	26, 040	28, 585	192	239	250
Acquisition of capital assets.....	(29, 134)	(31, 556)	(31, 278)	(1, 086)	(2, 768)	(2, 015)
31 Equipment.....	13, 377	15, 598	15, 398	455	665	719
32 Lands and structures.....	4, 419	4, 484	4, 068	118	180	249
33 Investments and loans.....	11, 339	11, 474	11, 813	512	1, 924	1, 046
Grants and fixed charges.....	(32, 234)	(36, 026)	(39, 784)	(27, 052)	(30, 209)	(34, 885)
41 Grants, subsidies, and contributions.....	15, 402	18, 479	20, 958	4, 555	4, 484	4, 623
42 Insurance claims and indemnities.....	4, 476	4, 442	5, 058	22, 161	25, 357	29, 852
43 Interest and dividends.....	12, 305	12, 974	13, 712	119	160	213
44 Refunds.....	50	130	56	218	209	198
Other:						
Proposed for separate transmittal.....		12, 244	3, 247		5	244
Not distributed otherwise.....	-121	-487	39	817	780	787
Change in selected resources.....	131	1, 249	375	56	140	107
Quarters and subsistence charges (-).....	-18	-18	-18	-1	-1	-1
Total obligations incurred.....	143, 732	171, 934	172, 711	30, 932	36, 109	40, 379

NOTES

Because of rounding, detail may not add to totals shown.

See table 9, p. 48, of the 1967 budget and the footnote thereto.

SPECIAL VIETNAM COSTS

Mr. JONAS. I was wondering how realistic your figures are. You have \$14 billion in the current budget for stepped-up activities in Vietnam, and, as I recall it, you reduced that to \$9 billion next year. Is that correct?

Mr. SCHULTZE. In terms of appropriation requests, that is correct, sir. For expenditures, it goes the other way. The rate at which the money will be expended rises from \$4.7 to \$10.5 billion.

Mr. JONAS. But you showed on your chart that Vietnam costs next year will be \$9 billion.

Mr. SCHULTZE. For appropriations for Vietnam, that is correct, sir.

Mr. JONAS. You said, and I agree, that it is a fair statement, that it could be either too low or too high. I am just wondering if you really consider it realistic to think that the war in Vietnam will be won or over so that budget appropriation requests next year will be \$5 billion under what they are this year.

Mr. SCHULTZE. There are two points to that, Mr. Jonas. Because of the long leadtimes involved in producing military items, particularly aircraft and a good chunk of the ground equipment, it was necessary, in order to be ready in Vietnam, to submit appropriations for enactment at the earliest possible moment. Hence, the 1966 appropriation, of course, contained a very heavy element for those long leadtime items. What we have presented in the budget, both in terms of appropriations and in terms of the expenditures from those appropriations, are our honest best estimates of what the requirements now appear to be.

Mr. JONAS. You are at least asking for appropriations of \$5 billion less in the new 1967 budget than you asked in 1966?

Mr. SCHULTZE. That is correct, sir.

DEFENSE MILITARY FUNDS AND EXPENDITURES, 1955-67

Mr. MAHON. Would you place at this point in the record the expenditures and appropriations for the Department of Defense for the last 10 years?

Mr. SCHULTZE. Yes, sir.

(The information supplied follows:)

Department of Defense—Military

(In millions of dollars)

	New obligational authority	Expenditures		New obligational authority	Expenditures
1955.....	\$30,787	\$35,531	1962.....	\$48,170	\$46,815
1956.....	33,187	35,792	1963.....	49,795	48,252
1957.....	36,255	38,436	1964.....	49,922	49,760
1958.....	36,747	39,071	1965.....	49,363	46,173
1959.....	41,168	41,223	1966 (estimated).....	61,838	52,925
1960.....	40,598	41,215	1967 (estimated).....	58,938	57,150
1961.....	41,321	43,227			

MONTHLY TREASURY EXPENDITURE PATTERNS

Mr. JONAS. Mr. Director, the Treasury Bulletin No. 47, 1965, shows a month-by-month record of expenditures. If you have that bulletin, table 3 shows in June of 1965 total expenditures were \$9 billion, and then in July they were down to \$7,240 million and didn't get back to \$9 billion monthly expenditure level until November. Why such wide fluctuations in expenditures in the months of June and July 1965?

Mr. SCHULTZE. I would like to submit for the record a more detailed answer to this. But I can say that there are certain months in the

year in which a number of payments come due, which give expenditures a highly seasonal character.

Mr. JONAS. Does that always happen in June just before the end of the fiscal year?

Mr. SCHULTZE. The last month of each quarter tends to be fairly high. September, for example, jumped to \$9.5 billion. The amount fell again in October, and then rose a little bit in November. If I recall correctly, the figure jumped again in December. So the end of the quarters do tend to be high.

Mr. JONAS. That same bulletin has a breakdown of expenditures for Defense, and I note that in July of 1965 Defense expenditures were only \$3.6 billion, whereas they were \$4,322 million in June. I am surprised at that low rate of expenditure in July since the President sent up a supplemental request for \$700 million in May, and it was promptly granted.

Mr. SCHULTZE. Again, Mr. Jonas, two points: If you look at the same table, you will notice that in March expenditures were \$4.2 billion, almost the same as June, and in the month of February expenditures were lower than in July. So there is not merely a fluctuation between June and July, but there is also substantial change between the last month in the quarter and the following month.

My second point: The \$700 million the President sent to the Congress in May essentially went for very long leadtime items, in which the actual expenditures are quite slow in following. Hence, what happened not only in July but also in August and September and October in terms of actual expenditures was very little influenced by that \$700 million. However the \$700 million was required to make the contracts.

Mr. JONAS. May I call your attention to the expenditure level from June 1964. That is not 1965, that is 1964—\$5,114 million and in not but 1 month of 1965 did expenditure level go above the level of June of 1964. In view of this expenditure records, I am wondering if we get all of the information we need when the supplementals are sent up. How can you explain that wide a fluctuation? Why were we spending a billion dollars more in June of 1964 than we spent in July of 1965 after the Vietnam crisis had developed?

Mr. SCHULTZE. I don't have the 1964 tabulation in front of me, Mr. Jonas, but the major point, of course, is that there is a very long lag between making an appropriation, then letting the contract, actually having the work done and the goods delivered, and finally paying out the check. What you have in front of you represents the amount of the check in payment for obligations made in some cases a month and in some cases years earlier.

Mr. JONAS. Is it not a little strange you are spending more in 1964 than in any month in 1965 except one?

Mr. SCHULTZE. I will respond to that in the record. My only point is if you look for month to month, you will note there are wide fluctuations in almost every year.

(The information supplied follows:)

The following tables illustrate the variability in the timing of defense expenditures, which must be made as bills become due and which therefore change in pattern depending on particular circumstances in any given year.

Table 1 presents quarterly expenditure data for the 10-year period 1956 through 1965. The percentage data show how wide the year-to-year patterns may be.

For the fourth fiscal quarter, for example, expenditures as a percent of the respective fiscal year totals range from a low of 24.5 percent (1960) to a high of 27.4 percent (1962), showing a significant degree of volatility.

Table 2, which treats June expenditures by the Department of Defense as a percent of total fiscal year expenditures, shows that the pattern for that month is particularly volatile. The apparent high level of expenditures in June of 1964 is not unusual. Although lower in absolute amount, expenditures in 1956 and 1958 were of the same relative magnitude as in 1964.

TABLE 1.—*Department of Defense—Military functions, expenditures by fiscal year quarter*

[Dollar amounts in billions]

Fiscal year	July to September	October to December	January to March	April to June	Total
1956.....	\$9.0	\$8.7	\$8.6	\$9.5	\$35.8
1957.....	8.5	9.9	9.8	10.2	38.4
1958.....	9.8	9.6	9.4	10.3	39.1
1959.....	9.9	10.7	10.0	10.6	41.2
1960.....	10.2	10.8	10.1	10.1	41.2
1961.....	10.3	10.8	10.8	11.3	43.2
1962.....	10.5	11.7	11.8	12.8	46.8
1963.....	11.5	12.5	12.0	12.3	48.3
1964.....	11.8	12.4	12.0	13.6	49.8
1965.....	10.7	11.8	11.5	12.2	46.2

QUARTERLY EXPENDITURES AS A PERCENT OF FISCAL YEAR TOTALS

1956.....	25.1	24.3	24.0	26.5	100.0
1957.....	22.1	25.8	25.5	26.6	100.0
1958.....	25.1	24.6	24.0	26.3	100.0
1959.....	24.0	26.0	24.3	25.7	100.0
1960.....	24.8	26.2	24.5	24.5	100.0
1961.....	23.8	25.0	25.0	26.2	100.0
1962.....	22.4	25.0	25.2	27.4	100.0
1963.....	23.8	25.9	24.8	25.5	100.0
1964.....	23.7	24.9	24.1	27.3	100.0
1965.....	23.2	25.5	24.9	26.4	100.0

NOTE.—Detail may not add to totals due to rounding.

TABLE 2.—*Department of Defense—Military functions, June expenditures as a percent of fiscal year totals*

Fiscal year	June expenditures	Fiscal year total	June as percent of total
	<i>Billions</i>	<i>Billions</i>	
1956.....	\$3.7	\$35.8	10.3
1957.....	3.3	38.4	8.6
1958.....	3.9	39.1	10.0
1959.....	4.0	41.2	9.7
1960.....	3.5	41.2	8.5
1961.....	4.1	43.2	9.5
1962.....	4.5	46.8	9.6
1963.....	4.2	48.3	8.7
1964.....	5.1	49.8	10.2
1965.....	4.3	46.2	9.3

CIVILIAN PERSONNEL INCREASES

Mr. JONAS. How many new employees are in this budget?

Mr. SCHULTZE. The total new employees for 1967 relative to 1966 is 51,100. That is a 51,100 increase from 1966 to 1967 for permanent full-time Federal employees.

Mr. JONAS. What will that amount to in salaries and personal services based on average civil service rates?

Mr. SCHULTZE. I can supply that for the record, sir.

Mr. JONAS. Per year.

Mr. SCHULTZE. Yes.

Mr. MAHON. You might insert an informative table on the Federal civilian personnel situation, perhaps by major departments and agencies, for the last 2 or 3 years, and briefly identify the major areas where increases have occurred, and do occur under this new budget.

(The information supplied follows:)

CHANGES IN PERSONNEL COMPENSATION

Based on average salaries, about \$350 million is the annual cost of an increase of 51,100 civilian employees.

Full-time permanent employment in the executive branch (as of June)

	1964 actual	Change—1964 to 1965	1965 actual	Change 1965 to 1966 estimate	1966 estimate	Change—1966 to 1967	1967 estimate
Department of Agriculture.....	77,205	2,898	80,103	967	81,070	1,780	82,850
Department of Commerce.....	28,900	2,262	29,162	1,198	30,360	1,480	31,840
Department of Defense, Civil.....	29,065	807	29,902	498	30,400	500	30,900
Department of Health, Education, and Welfare.....	79,828	1,913	81,741	10,759	92,500	6,510	99,010
Department of Housing and Urban Development.....	13,656	—229	13,427	873	14,300	1,050	15,350
Department of the Interior.....	55,967	749	56,716	824	57,540	1,960	59,500
Department of Justice.....	32,017	603	32,620	30	32,650	50	32,700
Department of Labor.....	8,484	429	8,913	387	9,300	300	9,600
Post Office Department.....	454,806	6,405	461,211	20,039	481,250	18,750	500,000
Department of State.....	24,027	—629	23,398	902	24,300	100	24,400
Agency for International Development.....	15,437	—724	14,713	187	14,900	850	15,750
Peace Corps.....	1,055	6	1,061	89	1,150	50	1,200
Treasury Department.....	83,026	468	83,494	1,506	85,000	1,200	86,200
Atomic Energy Commission.....	7,120	—73	7,047	—47	7,000	30	7,030
Federal Aviation Agency.....	44,418	—657	43,761	—1,261	42,500	—200	42,300
General Services Administration.....	34,079	1,291	35,370	380	35,750	1,000	36,750
National Aeronautics and Space Administration.....	31,984	1,098	33,082	618	33,700	300	34,000
Veterans Administration.....	148,892	—1,885	147,007	—1,307	145,700	5,150	150,850
Other agencies:							
Selective Service System.....	5,276	470	5,746	1,054	6,800	—1,010	5,790
Small Business Administration.....	3,286	281	3,567	433	4,000	700	4,700
Tennessee Valley Authority.....	11,852	—84	11,298	82	11,350	400	11,750
The Panama Canal.....	14,052	31	14,083	—283	13,800	383	14,180
U.S. Information Agency.....	11,675	—270	11,405	5	11,410	20	11,430
All other.....	27,596	1,692	29,288	2,382	31,670	3,756	35,420
Subtotal.....	1,243,233	14,852	1,258,085	40,315	1,298,400	45,100	1,343,500
Department of Defense, military and military assistance.....	1,985,063	—10,395	1,974,668	92,332	1,067,000	6,000	1,073,000
Total.....	2,228,296	4,457	2,232,753	132,647	2,365,400	51,100	2,416,500

Mr. SCHULTZE. Let me point out that of the 51,000 increase, 25,000 are employees taken on literally to reduce costs in two agencies: The Defense Department finds it can substitute civilian employees for military employees in a number of jobs and come out ahead. The Post Office finds it can substitute regular employees for overtime and come out ahead. So of that 51,000 increase, 25,000 is for that purpose alone.

Mr. JONAS. We have been impressed in the Subcommittee on Independent Offices with the request for computers and data processing equipment in all of the civilian agencies in the Government. They are usually justified on the basis they will save money in the long run by reducing employees, but we don't find they will reduce employees.

Mr. SCHULTZE. Mr. Jonas, what happens, of course, is that these purchases of automatic data processing do make possible substantial improvements in productivity. When you have an agency such as the Social Security agency, for example, where the number of beneficiary recipients goes up year by year, clearly the number of employees doesn't go down, but they would go up very substantially more than they have were it not for the mechanization. This is essentially what happens.

PROCEEDS OF SALES AND REPAYMENTS OF LOANS TREATED AS OFFSETS TO EXPENDITURES

Mr. JONAS. Give us a statement we can use to explain to the man on the street how you justify charging the proceeds from the sale of Government held loans—assets—as a reduced expenditure.

Mr. SCHULTZE. I would say very easily, Mr. Jonas. When the Federal Government makes these loans they are charged as expenditures. For many years the usual procedure has been that when repayments are received on loans they are credited against expenditures. This is the standard practice for revolving funds, and almost all loan programs are financed through revolving funds.

In looking at financial statements of this type of program we are interested primarily in the net change in outstanding assets (and liabilities). Over the last decade or so we have actually charged to the budget about \$33 billion in expenditures as these loans went out. In other words, there are now on the books of the Government \$33 billion worth of financial assets. The net investment in such assets (or in any individual type of assets) in any one year, is more clearly revealed if repayments and sales are offset against new expenditures, rather than grouped with taxes and other general revenues.

Mr. JONAS. You don't credit them as a receipt, you credit them as reduced expenditures.

Mr. SCHULTZE. What we credit is the net change in the obligations and assets outstanding of the program. That is composed of two items and always has been—the gross expenditure for a new loan and the receipt into the program of collections on loans formerly made. So what you get in the budget total is the net burden on the taxpayer, which is the net increase in the outstanding loans made by the Government. When the Government makes a loan that is a charge to the taxpayers, when it gets the money back that is a reduction from the taxpayers' charge. We show in the budget the net difference. We have always done so, and I think it is proper to continue doing so.

Mr. JONAS. It is hard to understand. I could understand it if you would claim it as a receipt when you sell the assets. You charged it as an expenditure when you laid out the money. Then when you sell the assets, it is a receipt. Instead of showing it that way in the budget, you credit it as a reduced expenditure, an offset to expenditures.

Mr. SCHULTZE. The point we are trying to show, Mr. Jonas, is the net charge of this program against the taxpayer. In the case of the college housing program, in the case of the Farmers Home Administration, in the case of the REA, the net cost to the taxpayer is what the Government puts out in this program minus what it takes back, because what it takes back is not charged to the taxpayer.

Mr. JONAS. It seems to me to be a neat way to show less expenditures than actually is the case.

Mr. SCHULTZE. All I am saying, Mr. Jonas, this is a standard procedure. It does reflect what we try to reflect in the budget—net cost to the taxpayer. I think our present system does this.

INTEREST ON THE NATIONAL DEBT

Mr. JONAS. Mr. Chairman, the Secretary and the Director relate everything, budgetwise, to the gross national product, including the burden of interest. I suggest that that is not a reasonable relationship. I cannot see how the amount the Government pays out in interest on bonds can have any relationship to gross national product. It seems to me that the correct relationship would be between what the Government pays out in interest as related to what the Government receives in income. Would you agree?

Mr. SCHULTZE. I would agree that that is one way to show it. I do not say I would agree that is the only way to indicate the impact of interest.

Mr. JONAS. Do you know how far back in history you will have to go to find the time when we were paying out 12 percent of our income in interest? When I say "we" I means the Government. You project \$111 billion in income next year and \$12.8 billion in interest. I believe you will have to go back to ancient history before you can find a time when the burden of interest on the taxpayers amounted to 12 percent of Government receipts.

Mr. SCHULTZE. Of course, one of the reasons for that is that the relationship of total tax revenues to taxpayers' income has not been rising. Another way to present the figure would be to look at interest payments as a proportion of the total income of the Nation.

Mr. JONAS. I don't think that has anything to do with it. The only thing interest has to do with is what part of our Government's income is required to pay the interest on the national debt, and it goes up and up and up and up. And the Secretary uses those figures and relates them to gross national product. He doesn't discuss the fact it takes 12 cents out of every dollar we receive in income to pay the carrying charge on the debt, and it goes up every year, and you say there is no reason to be worried about that?

Secretary FOWLER. The ratio for fiscal 1967, according to computations I have made is 11.6 percent.

Mr. JONAS. I had somebody here behind me to calculate it.

Secretary FOWLER. We had better get our calculators together then. I have one, too.

Mr. JONAS. He told me it was about 12 percent. It totals \$12.9 billion.

Secretary FOWLER. And that, taken with the \$111 billion of projected receipts, provides a ratio of 11.6 percent, according to our figures.

Mr. JONAS. That is about what it was last year, as I recall, wasn't it? The Secretary last year put a table in the record which shows in 1950, I think, the ratio was about 12 percent, but beyond 1950 you had to go back to the twenties to find a time when it was that high.

Anyway, my point is it seems to me this talk of relating the interest rate on the national debt to the gross national product is not a sound way to relate it. That does not reflect the burden of the carrying of the debt to the taxpayers. When you have only 89 cents out of every dollar left to run the Government after you pay the interest on the national debt, that is the thing that creates the problem, it seems to me.

Mr. SCHULTZE. I would say, Mr. Jonas, this is clearly one relationship you have to look at. But I would still insist that a much more important relationship is the proportion of taxpayers' income which has to go to pay interest, and that is going down steadily.

Mr. MAHON. Mr. Andrews, you have been present throughout this hearing. Do you have any special questions?

FINANCIAL CONDITION OF SOCIAL SECURITY FUND

Mr. ANDREWS of Alabama. I would like to ask the Secretary one question, Mr. Chairman.

Mr. Secretary, would you tell us briefly what the condition of the social security fund is and what impact the medicare program will have on it?

Secretary FOWLER. I believe Mr. Schultze is a little more familiar with that subject than I am.

Mr. ANDREWS of Alabama. You could supply it for the record?

Secretary FOWLER. Mr. Schultze can give you the basic figures and I will be glad to supply additional figures for the record.

Mr. ANDREWS of Alabama. All right.

Mr. SCHULTZE. I think two figures for the various trust funds are of particular interest. First, is the fact fiscal 1967 receipts from the trust funds will exceed expenditures by, I believe, \$3.7 billion. I may have to correct that decimal point, but I think that is right.

Secondly, if you want to take a look at the total cash and other balances in the various trust funds—cash and securities—that would be some \$68 billion at the end of fiscal year 1967, all taken together.

Mr. ANDREWS of Alabama. Could you give a breakdown on cash and securities and what type of securities they are?

Mr. SCHULTZE. That can be done; yes, sir. They are all U.S. securities but we can give the specific securities, maturity dates, et cetera.

Secretary FOWLER. The general information is on pages 390 and 391 of the budget document, but we will supply a more detailed presentation.

(The following material was submitted by the Treasury Department:)

Receipts of the old-age and survivors insurance trust fund totaled over \$16.6 billion in calendar 1965 and expenditures \$17.5 billion. The \$900 million excess of outgo decreased the total assets of the fund to \$18.2 billion on December 31, 1965. However, the decline in assets last year was the result of increased benefits before the scheduled rise in percentage contributions under existing statute beginning in January 1966. A statement of the status of the fund as of December 31, 1965, is provided in Tables 1, 1-a, and 1-b attached.

According to the Social Security Administration, the longer range forecast is that the fund will grow substantially. These estimates, which are on a fiscal year basis, indicate that for the 5 fiscal years, 1966-70, receipts will rise substantially faster than expenditures due to the scheduled increases in contribution rates and to the higher maximum taxable earnings base in calendar 1966. In consequence, by the end of fiscal 1970 the fund will amount to an estimated \$29 billion for an increase of \$8.8 billion during the 5-year period.

Disability insurance trust fund receipts totaled \$1.3 billion in calendar 1965 while disbursements totaled \$1.7 billion, partly due to the provisions of Public Law 88-650 which results in increased eligibility for retroactive benefits on certain disability applications filed since June 30, 1962. The \$440 million excess of disbursements reduced this fund to \$1.6 billion on December 31, 1965. A statement of the status of the fund as of December 31, 1965, is given in tables 2, 2-a, and 2-b attached.

As in the case of the old-age and survivors insurance trust fund, the longer range outlook is for a substantial growth in the disability insurance trust fund. Estimates on a fiscal year basis covering the 5 years, 1966-70, indicate that receipts will rise more rapidly than expenditures as a result of the increase in the maximum taxable earnings base and in the contribution rate allocated to this fund. In consequence, by the end of fiscal 1970 the fund will amount to \$2.3 billion, an increase of \$0.3 billion for the 5-year period.

Long-range estimates for both the Federal old-age and survivors insurance trust fund and the disability insurance trust fund show that they are in close actuarial balance. In both cases, the weighted average of intermediate cost estimates as a percentage of taxable payrolls (midway in the range of high- and low-cost assumptions) is very close to the weighted average of the graduated schedule of future tax rates.

The medicare program calls for the establishment of two new trust funds, neither of which will have any effect on the Federal old-age and survivors insurance or the disability insurance trust funds.

Receipts for the Federal hospital insurance trust fund under the medicare program will be derived from equal tax contributions by covered workers and their employers, and by contributions of covered self-employed persons. The following table shows the schedule of hospital insurance contribution rates:

Calendar year:	Percent ¹
1965.....
1966.....	0.35
1967-72.....	.50
1973-75.....	.55
1976-79.....	.60
1980-86.....	.70
1987 and after.....	.80

¹ Rate for employee; same for both employer and self-employed.

In addition to contributions based on taxable earnings and receipts from general revenues for noncontributory credit for military service, the Secretary of Health, Education, and Welfare is authorized to charge for certain services not directly related to the hospital insurance program. Receipts of the fund will also include interest on investments.

The Social Security Administration estimates that tax contributions and other receipts will grow from \$0.8 billion in fiscal 1966 to \$2.7 billion in 1967 and to \$3.4 billion in 1968. Benefit payments will not start until fiscal 1967 and expenditures in that year are expected to total about \$2.4 billion and somewhat less than \$2.7 billion in 1968. Thus, by June 30, 1968, the hospital insurance trust fund is expected to grow to \$1.9 billion.

Receipts for the Federal supplementary medical insurance trust fund under the medicare program will be derived initially from a flat \$3 monthly premium

during the period July 1966 through December 1967. This will be matched by Government contributions. Beginning in 1968 the program and the premium rate will be reviewed every 2 years. Premium payments by participants whenever possible will be made through deductions from old-age, disability, or other Government-sponsored retirement programs.

Receipts and benefit payments will start in fiscal 1967. On the assumption that 80 percent of eligible people over age 65 will participate, receipts including Federal contribution are expected to total about \$1.1 billion in 1967 and about \$30 million more in 1968. Expenditures (including administrative expenses in fiscal 1966) should amount to about \$0.9 billion in 1967 and about \$1.1 billion in 1968. As a result the trust fund will total about \$200 million at the end of 1967 and \$250 million in 1968.

Provision has also been made for a contingency reserve of \$342 million from the Treasury general fund as indicated in the budget for fiscal 1967. Unless necessary this reserve will not be drawn upon but any amounts expended from this reserve will be repaid. The estimates described here are in the intermediate cost range. However, it is impossible to forecast with any accuracy receipts and benefit costs, mainly because no participation rate figures are as yet available.

Investments of the two medicare trust funds—Federal hospital insurance and Federal supplementary medical insurance—will consist only of interest-bearing direct or guaranteed obligations of the United States. As in the case of the two existing Old Age and Survivors Insurance and Disability Insurance Trust Funds, the medicare funds will ordinarily acquire special nonmarketable public debt issues. These obligations will have maturities fixed with due regard to the needs of the funds and will bear interest at a rate based on the average market yield (as of the end of the month next preceding such issue), on all marketable Treasury obligations which are not due or callable until after 4 years. The same formula is used for special issues to the two existing social security funds. The two medicare funds may also acquire marketable obligations on original issue or by purchase in the market, as may the other two funds.

TABLE 1.—*Statement of receipts and expenditures—Federal Old-Age and Survivors Insurance Trust Fund, December 31, 1965*

	Current month	Fiscal year to date
I. Balance in trust fund, beginning of period.....	\$18,751,934,091.00	\$20,180,484,932.53
II. Receipts:		
Appropriations by Congress, employment taxes.....	698,000,000.00	6,226,263,965.60
Less: Refund of taxes.....	0	0
Deposits by States.....	(597,904.57)	680,950,925.54
Interest on investments (cash).....	217,712,686.43	300,387,489.17
Interest on investments (amortization of premium and discount).....	192,712.52	385,425.04
Interest on reimbursement from FDI trust fund.....	3,581,400.00	3,581,400.00
Other (HEW).....	5,041.08	34,676.15
Total receipts.....	918,893,935.46	7,211,603,881.50
III. Expenditures:		
Benefit payments.....	1,468,063,321.26	9,020,853,160.61
Reimbursement to general fund, Treasury, administrative expenses.....	4,377,940.55	18,355,590.87
Appropriation for expenses, HEW.....	2,100,000.00	5,236,000.00
Reimbursement from FDI trust fund for administrative expenses, fiscal year 1965.....	(85,935,593.00)	(85,935,593.00)
Construction expenses.....	126,211.59	864,480.02
Payments to railroad retirement account.....	0	0
Administrative expenses, Social Security Administration.....	47,388,035.58	198,007,065.05
Total expenditures.....	1,436,119,915.98	9,157,380,703.55
IV. Balance in trust fund, end of period.....	18,234,708,110.48	18,234,708,110.48

ANALYSIS OF BALANCE IN TRUST FUND, END OF PERIOD

Investments:	
U.S. Treasury securities per schedule A attached (face value).....	\$16,659,981,250.00
Less: Unamortized premium and discount (net).....	(17,128,296.16)
Plus: Accrued interest purchased.....	0
Total investments (book value).....	16,642,852,953.84
Undisbursed balances.....	1,591,855,156.64
Total assets.....	18,234,708,110.48

TABLE 1-a.—Federal old-age and survivors insurance trust fund investments, Dec. 31, 1965

U.S. Treasury bonds—Marketable:	
2½ percent of June 15, 1964-69	\$22,180,000
2½ percent of Dec. 15, 1964-69	33,000,000
2½ percent of Sept. 15, 1967-72	250
3⅞ percent of May 15, 1968	17,450,000
4 percent of Feb. 15, 1969	5,000,000
3¾ percent of Aug. 15, 1968	7,000,000
4 percent of Oct. 1, 1969	57,500,000
4 percent of Feb. 15, 1970	15,000,000
4 percent of Aug. 15, 1971	100,000,000
4 percent of Aug. 15, 1973	38,000,000
4⅞ percent of Feb. 15, 1974	61,934,000
4¼ percent of May 15, 1974	6,352,000
3⅞ percent of Nov. 15, 1974	24,500,000
4¼ percent of May 15, 1975-85	78,023,000
3¼ percent of June 15, 1978-83	60,200,000
4 percent of Feb. 15, 1980	153,100,000
3½ percent of Nov. 15, 1980	449,450,000
3¼ percent of May 15, 1985	25,700,000
4¼ percent of Aug. 15, 1987-92	33,000,000
4⅞ percent of May 15, 1989-94	91,300,000
3½ percent of Feb. 15, 1990	556,250,000
3 percent of Feb. 15, 1995	70,170,000
3½ percent of Nov. 15, 1998	552,037,000
	2,457,146,250
U.S. Treasury bonds—Nonmarketable:	
2¾ percent of Apr. 1, 1975-80 investments series "B"	1,064,902,000
U.S. Treasury special issues:	
See schedule A-1 attached (face value)	13,137,933,000
	16,659,981,250

TABLE 1-b.—Federal old-age and survivors insurance trust fund investments, Dec. 31, 1965

U.S. Treasury special issues:	
Bonds:	
2⅞ percent due June 30, 1969	\$952,635,000
2⅞ percent due June 30, 1970	1,080,011,000
2⅞ percent due June 30, 1971	1,080,011,000
2⅞ percent due June 30, 1972	1,080,011,000
2⅞ percent due June 30, 1973	1,080,011,000
2⅞ percent due June 30, 1974	1,080,011,000
2⅞ percent due June 30, 1975	919,934,000
3¾ percent due June 30, 1975	160,077,000
3¾ percent due June 30, 1976	1,080,011,000
3⅞ percent due June 30, 1977	1,080,011,000
3⅞ percent due June 30, 1978	658,444,000
4⅞ percent due June 30, 1978	421,567,000
4⅞ percent due June 30, 1979	1,080,011,000
4⅞ percent due June 30, 1980	1,080,011,000
	12,832,756,000
Certificates of indebtedness:	
4⅞ percent of June 30, 1966	305,177,000
	13,137,933,000

TABLE 2.—Statement of receipts and expenditures—Federal disability insurance trust fund, Dec. 31, 1965

	Current month	Fiscal year to date
I. Balance in trust fund, beginning of period.....	\$1,759,002,165.66	\$2,006,699,121.38
II. Receipts:		
Appropriations by Congress, employment taxes.....	52,000,000.00	458,901,375.81
Less: Refund of taxes.....	0	0
Deposits by States.....	2,064,285.02	50,435,575.56
Interest and profits on investments (cash).....	22,149,089.97	31,388,090.14
Interest on investments (amortization of premium and discount).....	32,225.29	64,450.58
Other (HEW).....	2,141.26	14,991.05
Total receipts.....	76,247,741.54	540,804,483.14
III. Expenditures:		
Benefit payments.....	139,090,857.02	849,577,633.90
Reimbursement to general fund, Treasury, administrative expenses.....	345,324.75	2,112,245.19
Reimbursement to OASI trust fund for administrative expenses, fiscal year 1965.....	89,516,993.00	89,516,993.00
Payments to railroad retirement account.....	0	0
Total expenditures.....	228,953,174.77	941,206,872.09
IV. Balance in trust fund, end of period.....	1,606,296,732.43	1,606,296,732.43

ANALYSIS OF BALANCE IN TRUST FUND, END OF PERIOD

Investments:	
U.S. Treasury securities per schedule A attached (face value).....	\$1,440,257,000.00
Less: Unamortized premium and discount (net).....	(2,135,960.87)
Plus: Accrued interest purchased.....	0
Total investments (book value).....	1,438,121,039.13
Undisbursed balance in trust fund.....	168,175,693.30
Total assets.....	1,606,296,732.43

TABLE 2-A.—Federal disability insurance trust fund investments, Dec. 31, 1965

U.S. Treasury—Marketable:	
3⅞ percent of May 15, 1968.....	\$3,750,000
3¾ percent of Aug. 15, 1968.....	5,000,000
3⅞ percent of Nov. 15, 1968.....	5,000,000
4 percent of Oct. 1, 1969.....	26,000,000
4 percent of Feb. 15, 1970.....	10,000,000
4 percent of Aug. 15, 1970.....	14,000,000
4 percent of Feb. 15, 1972.....	2,000,000
4 percent of Aug. 15, 1972.....	2,000,000
4 percent of Aug. 15, 1973.....	16,500,000
3⅞ percent of Nov. 15, 1974.....	5,000,000
4¼ percent of May 15, 1975-85.....	20,795,000
4 percent of Feb. 15, 1980.....	30,250,000
4¼ percent of Aug. 15, 1987-92.....	80,800,000
4⅛ percent of May 15, 1989-94.....	68,400,000
3½ percent of Feb. 15, 1990.....	10,500,000
3½ percent of Nov. 15, 1998.....	5,000,000
Total U.S. Treasury marketable bonds (face).....	314,995,000
U.S. Treasury special issues:	
See schedule A-1 attached (face value).....	1,125,262,000
Total investments (face value).....	1,440,257,000

TABLE 2-B.—Federal disability insurance trust fund investments, Dec. 31, 1965

U.S. Treasury special issues—face value:

Bonds:		
2 ⁵ / ₈	percent maturing June 30, 1973	\$35,141,000
3 ³ / ₄	percent maturing June 30, 1973	20,738,000
2 ⁵ / ₈	percent maturing June 30, 1974	132,894,000
3 ³ / ₄	percent maturing June 30, 1974	20,738,000
2 ⁵ / ₈	percent maturing June 30, 1975	132,894,000
3 ³ / ₄	percent maturing June 30, 1975	20,738,000
3 ³ / ₄	percent maturing June 30, 1976	153,632,000
3 ³ / ₄	percent maturing June 30, 1977	153,632,000
3 ⁷ / ₈	percent maturing June 30, 1978	153,632,000
4 ¹ / ₈	percent maturing June 30, 1979	153,632,000
4 ¹ / ₈	percent maturing June 30, 1980	125,606,000
Total		1,103,277,000
Certificates of indebtedness:		
4 ³ / ₈	percent of June 30, 1966	21,985,000
Total special issues (face value)		1,125,262,000

Mr. ANDREWS of Alabama. Thank you. That is all, Mr. Chairman.

Mr. MAHON. I was about to yield to Mr. Sikes at this point, but Mr. Evins has a question, I believe.

PROPOSED SALES OF POOL PARTICIPATIONS IN GOVERNMENT-OWNED LOANS

Mr. EVINS. Thank you, Mr. Chairman.

Mr. Secretary, our chairman alluded earlier to the sale of a lot of our assets by the Government. This, to me, is one of the interesting points of the present budget. It is not altogether new or novel, but it is proposed to accelerate this rather substantially. Fannie Mae, of course, has been selling VA and FHA mortgages for some time, but they have had to pool say \$100 million to realize \$80 million in receipts. The President's budget projects the sale of these participation pools involving a number of agencies: Farmers Home Administration, \$600 million; Office of Education, \$100 million; Fannie Mae, another \$520 million; college housing, \$820 million; public facilities, \$80 million; Small Business Administration, \$850 million; and others, making a total of \$4,205 million.

My question is: Based upon our past experience, how much of our securities will we have to put in this pool to be able to realize \$4 billion of receipts? You have to put much more in the pool in the form of assets than you will realize in receipts.

Mr. SCHULTZE. May I respond to that?

Mr. EVINS. Yes.

Mr. SCHULTZE. We can furnish you with that only roughly, because all of the details are not yet worked out exactly in each case. But I can give you some idea. The key point on this, I think, is the fact that putting more assets into the pool than the dollar amounts of certificates of participation you sell in the pool does not in any sense reduce the net receipts or income to the Government from these assets. They still come in and are appropriately credited. What the over-coverage does is to make possible selling these participations at a lower interest rate than otherwise would be the case.

(The following additional information was provided for the record:)

The trust indenture covering the existing FNMA-VA participation pool requires coverage equal to 125 percent of the amount of certificates sold. In other words, \$125 of loans are pooled to assure payments for every \$100 of certificates issued. Based on our experience with this pool, the amount of coverage can be reduced on most future pools without damage to their financial soundness and without incurring difficult marketing problems.

Mr. EVINS. Some of these securities are below the current market rate on interest?

Mr. SCHULTZE. Yes.

Mr. EVINS. How much do you anticipate we are going to have to appropriate by way of interest subsidy to make these securities marketable?

Mr. SCHULTZE. Basically, whatever the Government had to do to get that interest rate down to the level it is at has already been done, in the sense that a loan made at 3 percent is already made at 3 percent. We do not expect in 1967 to have to request any additional funds for this purpose, but supplementary funds will be necessary in 1968 and later years.

Mr. EVINS. You do not know, then, how much in assets you will have to put in the pool to be able to get the \$4 billion in income, and you do not know how much appropriations will have to be made for interest subsidies at this time?

Mr. SCHULTZE. I don't want to leave the wrong impression. We have done substantial work as to what we have to do with respect to each one of these but we cannot submit a table showing down to the last decimal point what it is going to be, exactly. We can give you the information you want but it will not be down to the last decimal point.

Mr. EVINS. I think the President and the Secretary have found a novel device and an excellent way of bringing in revenue and at the same time build up the revolving fund so additional loans can be made.

Mr. SCHULTZ. The main point on this is that this is a continuation of a practice which, as you indicate, is not new. Essentially, we believe it tends to involve very heavily private lenders in these various programs and relieve substantially the burdens on the Treasury. But the details of it we will shortly have before the Congress.

Mr. EVINS. I think the Appropriation Committee of the Congress would certainly like to know how much by the way of subsidies we will have to appropriate.

Secretary FOWLER. As a principle and as a policy, as Mr. Schultze indicated, this practice goes back several years. For the general information of the committee, the Commission on Money and Credit, which submitted its report in 1961, strongly recommended the substitution of private credit for public credit wherever that would be feasible—to go from direct loans to Government-guaranteed loans. Three years ago an interdepartmental committee report on Federal credit programs, which Secretary Dillon chaired, again urged that this process be intensified. You have in this budget the first fruit of a policy which has been developed over the last 10 years.

Mr. EVINS. Mr. Chairman, could we have placed in the record at this point table No. E-4 of the special analysis on page 61 of the budget booklet?

Mr. MAHON. Without objection, this will be included.

Mr. EVINS. Thank you, Mr. Chairman.

Mr. MAHON. Please feel free to clarify the record on this important but somewhat complicated matter.

Mr. SCHULTZE. Yes, sir.

(The table referred to, follows:)

Direct sales and participation sales of loans by major Federal credit programs

[In millions of dollars]

Agency or program	1965 actual		1966 estimate		1967 estimate	
	Direct sales	Participation sales	Direct sales	Participation sales	Direct sales	Participation sales
Department of Agriculture: Farmers Home Administration.....	35		40		15	1 600
Department of Health, Education, and Welfare: Office of Education.....						1 100
Department of Housing and Urban Development:						
Federal National Mortgage Association.....	264	200	182	485	49	2 520
Federal Housing Administration.....	6		15		65	
Public housing program.....	4					
College housing loans.....	12		5		5	1 820
Public facility loans.....	11		5		5	1 80
Veterans' Administration:						
Direct loan revolving fund.....	61	93	60	625	80	154
Loan guarantee revolving fund.....	266	7	260	200	290	106
Export-Import Bank of Washington.....	124	450	60	975	25	975
Small Business Administration.....	31		45	1 350		1 850
Total, by type of sale.....	814	750	672	2,635	534	4,205
Grand total.....	1,564		3,307		4,739	
Present programs.....	1,564		2,957		1,889	
Proposed legislation.....			350		2,850	

¹ Under proposed legislation.

² Includes \$400,000,000 under proposed legislation.

UNBALANCED DISTRICT OF COLUMBIA BUDGET

Mr. MAHON. Before recognizing Mr. Sikes, I am going to recognize for a brief question, Mr. Natcher.

Mr. NATCHER. The budget for the District of Columbia for fiscal year 1967 is out of balance approximately \$24 million. Now, this procedure has been followed for the last several years. In order to bring this budget in balance, as you know, Mr. Director, it would require legislation increasing taxes and additional tax measures totaling, I believe, 10. When the Commissioners compile their figures from the department heads and from the different groups here in the city of Washington for the budget for the next fiscal year, of course, a number of projects get in or drop out according to the expenditures and receipts. That works an extreme hardship on our committee when you send up an unbalanced budget. As soon as the budget is released, the people, through our newspapers here in the city of Washington, see that certain school projects, certain capital outlay projects are in the budget. When we then start our hearings, Mr. Director, they come up and say that the receipts will not balance out with expenditures and a cut is necessary. Then they cut down the amount that the budget is out of balance. We then only consider their capital outlay projects according to their priority list. It makes an extreme hardship on our committee.

Mr. Director, it has been done now for a number of years. We at one time held the hearings late, hoping that certain increases would take place bringing the budget back in balance. Last year we started our hearings early, believing that these increases would not take place. So far we have not started the hearings on the District of Columbia Budget for the reason that again we have an unbalanced budget and we are waiting to see where we are.

Mr. Director, what do you have to say about this? Why is this procedure followed time after time. The priority lists that are revised to tally with the receipts, of course, leave out important projects and the committee is blamed for the reduction due to the budget being out of balance.

Mr. Director, what can you do to help us on that?

Mr. SCHULTZE. Mr. Natcher, we could do two things: First, supply you an answer for the record, and, secondly, at this stage I might let Deputy Director Staats speak to this, as he is much closer to the District of Columbia budget than I am.

Mr. NATCHER. All right.

Mr. STAATS. Congressman Natcher, there is certainly no intention here to present any difficulties to the committee. What we have attempted to do is to present the budget for the District of Columbia in the same way that we present any other agency's budget, namely, to show proposed legislation as well as the programs which can be carried on under existing legislation. We have instructed the District people to be in a position to keep their priorities within the revenues that are available as against those which would be provided under new taxes or through the increase in the amount of the Federal payment. I realize it does present the kind of difficulty you describe. We haven't been able to devise a better approach to it. We certainly would be glad to discuss with you what might appear to the committee to be a better approach, but so far we have not been able to find an alternative approach which would still show the committee all of the programs which could be carried on through both existing revenues as well as those which would be provided through additional taxes or additional Federal payments.

Mr. NATCHER. You can see the position the committee is in when we, in turn, report a bill that leaves out certain schools, a certain number of teachers, counselors, important items to the people here in the city when we have to do it to bring your budget back in balance to start the hearings. You can see the position we are in.

Mr. STAATS. The problem, it seems to us, is partly a matter of timing as to the action of the legislative committee and the action of the Appropriations Committee. We are always hopeful the legislative committee action could take place early enough so it would not interfere with your schedule.

Mr. NATCHER. Mr. Staats, I believe this is the third consecutive year that an unbalanced budget has been sent up on the District of Columbia. Is that correct?

Mr. STAATS. I have forgotten the exact number of years. It has been done for some time. I know that.

Mr. NATCHER. Would you agree with me, Mr. Staats that it is not good procedure as far as our committee is concerned?

Mr. STAATS. We certainly would be happy to sit down and discuss alternative procedures. As I say, so far we have not been able to find a better one which would give you the whole story as to the full amount included in the President's budget.

Mr. NATCHER. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Sikes.

Mr. SIKES. Thank you, Mr. Chairman.

This has been a very interesting day. The witnesses have been convincing, the statements informative, the charts enlightening, and it has also been shown there are two sides to all budget questions.

I have been handed the illustration of a man aged 20 who weighed 250 pounds; at age 25 he weighed 300 pounds, an increase of 20 percent; at age 30 his weight had only increased to 325 pounds, which was an increase of less than 10 percent. From this chart it could be made to appear that this 30-year-old man weighing 325 pounds was relatively well off. Doctors probably would not agree, and some of the budget doctors would not agree that this budget is well off.

STATUS OF DELAYED MILITARY CONSTRUCTION FUNDS

Mr. Director, I would like to ask what consideration was given to using the \$600 million reduction reflected in the right-hand column of chart 7 against the defense supplemental for fiscal 1966 just recently sent to Congress.

Mr. SCHULTZE. I am not quite sure I follow the question, Mr. Sikes. (Discussion off the record.)

Mr. SCHULTZE. I would like to have a chance to correct my answer to this, but I am fairly sure that the most concise response would be that the Defense supplemental relates to Vietnam. The Defense reductions in 1967 partly represent some deferrals—particularly in the case of construction—of projects which, when times are more appropriate, can well go ahead. And it seemed to us that these ought to be kept separate and not used to offset the necessary increases. This is essentially the most concise answer I can give to that. The Secretary of Defense might have had other things in mind, but this is, I am fairly sure, the major point involved in the deferral actions. The 1967 reduction also reflects such changes as a decline of \$1.1 billion in estimated procurement expenditures, mainly because of reduced outlays for Air Force, aircraft and missile procurement and lower Army expenditures for equipment and missiles. This results from the great progress we have made in recent years in achieving planned inventory objectives.

BUDGET PROPOSALS WITH RESPECT TO EXCESS FOREIGN CURRENCY HOLDINGS

Mr. SIKES. Very well. There is an item which concerns some of us on the State, Justice, and Commerce Subcommittee that has to do with excess foreign currency authorization. These items are scattered throughout the budget, but I note that on page 777 the following language is proposed—"are authorized to be used." That appears on page 777 of the budget appendix.

Mr. SCHULTZE. Yes, sir.

Mr. SIKES. I quote again the words, "are authorized to be used." Now, that would apparently be in lieu of making an appropriation. Do you consider the new method to be preferable?

Mr. SCHULTZE. The major points with respect to these foreign currency authorizations, Mr. Sikes, are as follows:

You will notice that these essentially are authorizations for foreign currency use denominated specifically in the currency of the country involved. The agencies will be up to justify these, specifically, project by project. What we have here, of course, as you know, is currency far excess to our needs in a number of countries, in a large number of which inflation is very quickly eroding the value of that currency. The budget proposal is an attempt to provide a means to get special authorization for use of these currencies which won't be offset against or substituted for a normal higher-priority dollar appropriation to the agency. This essentially is the purpose of these special foreign currency authorizations.

Throughout the entire budget there are, I believe, some \$87 to \$88 million of such foreign currency authorizations denominated in the currency involved. The idea is to get for the U.S. Government the most fruitful use of these currencies, particularly in a period when their value in many cases is rapidly deteriorating because of inflation.

Mr. MAHON. The committee will, of course, delve into these thoroughly in the subcommittee hearings with the agencies involved. Mr. Sikes is interested in your overall appraisal.

Mr. SIKES. Now let me go one step farther. If this new method is desirable, why would you also continue to recommend appropriation language in items for the same purposes?

By way of clarification, if you look at page 758 of the budget appendix you will find "acquisition, operation and maintenance of buildings abroad." That is the special foreign currency program. This would indicate to me that you have two separate items for the same thing. Am I correct?

Mr. SCHULTZE. Not for the same thing but for the same basic purpose. We do have two different ways of getting at the same basic purpose.

Mr. SIKES. Why is it necessary to have two separate approaches?

Mr. SCHULTZE. I think the main reason for that is a reasonable practical judgment—that in some cases particular subcommittees and particular agencies have found a particular approach useful, they have gotten used to it, and there appears to be general agreement on the part of the committee and the agency that this is an appropriate method. At the same time, we did find that we were, in a sense, wasting a number of these currencies through inflation abroad because the agencies had found they could not get special foreign currency authorization without a substitution for their regular budget. Hence, we conceived this new approach to the problem of getting these currencies used in the interest of the United States. This does, admittedly, Mr. Sikes, leave us with two different methods of getting foreign currencies used. But as a practical judgment, we felt this would both preserve relationships that had already been established and set up a new technique in cases where it had been impossible to get agencies to come forward with a reasonable project.

Mr. SIKES. As I recall it, last year the committee gave you specifically what you requested. Where would there be an illustration of an instance where the existing plan is not working satisfactorily?

Mr. SCHULTZE. I prefer to supply that for the record, if I may, Mr. Sikes. I can't pull that out of my memory. I am sorry, sir.

(The information supplied follows:)

Congressional reductions in special foreign currency program appropriations recommended for 1966 were as follows: \$1 million, Agricultural Research Service; \$1 million, Public Health Service; and \$412,000, Library of Congress. In addition, several agencies no longer submit requests because of an understandable desire to hold down their total dollar appropriation requests.

The following table shows the number and amount of requests and enactments since the present system was adopted in 1961.

Special foreign currency program appropriation

[Dollar amounts in millions of dollar equivalent]

Fiscal year	Budget request		Enacted	
	Number of appropriations	Amount	Number of appropriations	Amount
1961.....	16	75.3	9	49.2
1962.....	16	58.9	14	48.1
1963.....	14	35.2	12	29.8
1964.....	14	47.7	12	29.3
1965.....	11	26.3	11	21.8
1966.....	14	36.9	14	34.5
Total.....	85	280.3	72	212.7

Mr. SIKES. Where in the budget is reflected the amount in dollars of the so-called authorizations?

Mr. SCHULTZE. In the special analyses on foreign currency, the total is given both in foreign currencies and in dollars. I believe \$87 or \$88 million is the total dollar value involved in the various currencies. This is shown in special analysis L on "Foreign Currency Availability and Uses" in tables on pages 156 and 157 of the special analysis book.

Mr. SIKES. Let me ask the committee clerk to take a quick look at this situation while I ask you some other questions.

Looking at page 777 of the budget appendix, for clarification, would you tell me how much is 2,996,428 Ceylonese rupees?

Mr. SCHULTZE. \$630,000.

Mr. SIKES. What is the total request of this one paragraph in dollars?

Mr. SCHULTZE. I believe, Mr. Sikes, that it is \$26 million.

Mr. SIKES. What is it in the entire budget?

Mr. SCHULTZE. The entire budget is \$87,069,000.

Mr. SIKES. Would it not have been more practical, from the standpoint of clarity, to so state this and give the exact amounts in the budget estimate?

Mr. SCHULTZE. By the "exact amount" you mean in dollar equivalent?

Mr. SIKES. Yes.

Mr. SCHULTZE. The exact amounts, of course, will be available when the agencies come up to explain the specific projects. But again, the point I want to emphasize is that these are excess foreign currencies,

and essentially they are not equal to U.S. dollars. They are excess foreign currencies whose value will quickly erode if we do not take advantage of them. This is the point of emphasis.

Mr. COHN. I believe if the State Department had had \$26 million more of appropriations to request, their next 26 million highest priority in dollars would not have been these, it would have been something else. But because there were foreign currencies excess to our needs available in these countries which were deteriorating in value, the State Department agreed that it could use them in those countries.

Mr. MAHON. Off the record.

(Discussion off the record.)

Mr. SIKES. Why is it felt necessary to ask for a 15-percent transfer authority?

(The following information was supplied for the record:)

Prices in many of the excess-currency countries are not stable. The 15-percent provision would merely permit increases and decreases of equivalent value in the specified amounts of different foreign currency units that could be used. It would permit flexibility to meet price increases for approved projects, but is not intended to provide for substitution of additional projects in one country for those approved in other countries.

Mr. SIKES. What is wrong with the present method of making an appropriation for these excess currencies and accounting for them in a strictly businesslike manner?

(The following information was supplied for the record:)

There has been some criticism that the system of requiring appropriations has prevented the use of excess foreign currencies for worthwhile projects, simply because the totals for the spending agencies, as shown in the budget, are larger under that system.

That system is based on the assumption that special foreign currency program appropriations are in addition to the amounts that would otherwise be available for the agency's programs. However, there is a tendency to consider all appropriations as equal.

The difference between the proposed authorizations and the system of appropriations is primarily in the technical manner of reporting. The requirements for accountability and control over the use of the currencies would not be relaxed. The spending would still be under congressional control, and it would still be shown in the Treasury's combined statement of receipts, expenditures and balances and in the budget documents.

Mr. SIKES. Do you consider these excess currencies as money and/or valuable assets of the U.S. Government?

(The following information was supplied for the record:)

Excess foreign currencies are an asset of the U.S. Government but, being nonconvertible, they can be used only for the purchase of goods and services within the excess currency country. They are a lot like a "credit" issued to a customer when merchandise is returned. This credit can be used to obtain other merchandise from the store. It is an asset, not as good, of course, as cash dollars, since it can only be used under very limited circumstances. It can only be "spent" at the store which issued it; it is not "money" available for use at the grocery, doctor, or the theater. This credit is only good for merchandise which the store stocks. If this store has nothing that you need and you cannot sell your credit to someone else, the asset has little value.

Our excess foreign currencies holdings are similar—on a different scale, of course—to the store credit. Unfortunately, the countries whose currencies we own in amounts excess to our needs have little that the United States can or needs to buy. Furthermore, the other country usually must sell the goods it produces for needed foreign exchange, instead of for return of its own currency. Our purchase of goods for export with these currencies would, in many cases, increase their need for economic aid.

Mr. SIKES. Were not the various executive agencies given exactly the amounts you requested last year? Certainly this was true, as I recall it, in the State, Justice, and Commerce bill.

(The following information was supplied for the record:)

This was true in the State, Justice, and Commerce bill last year, but not for all bills; reductions were made for Agriculture, Public Health Service, and the Library of Congress.

Mr. SIKES. It seems that this boils down to the fact the Bureau of the Budget has been requiring the agencies to include in their overall ceiling total request the amount requested of excess fund currencies, and it appears that they now propose to avoid that procedure by calling it an authorization to use; not including it in the total. I would like to have a discussion of that statement.

(The following information was supplied for the record:)

There is no overall "ceiling" which rigidly limits agency budget totals. There are sometimes pressures from various sources to keep the total NOA and expenditures for particular agencies to a minimum. The special foreign currency program appropriations, since they finance lower priority programs, are the most likely candidates for reduction when these pressures arise.

The proposed procedure was not developed with the idea of avoiding any congressional or budgetary controls. It was intended to clarify the distinction between the use of excess foreign currencies and the use of dollars, and to encourage agencies to find additional ways in which these currencies could be used to the benefit of the United States.

Mr. SIKES. We have in the past had tremendous credits to France and England, for instance. Now they are largely gone and have to be maintained by dollar appropriations.

I feel we need a further clarification of the whole subject. I would appreciate your getting into that.

(The following information was supplied for the record:)

Right after the war, the United States did own large amounts of French francs and British pounds, which were used to some extent without appropriations control and without adequate accounting for their use (in a manner not comparable with the present proposal). One of the desirable uses made of those currencies, however, was the acquisition of buildings in those countries for use by U.S. Government agencies. Now we have no local currencies to spare in those countries, and we must spend dollars in France and the United Kingdom in order to finance our needed costs. However, the earlier use of local currencies saves us dollars now. Rather than having to pay frequently rising rent rates for needed facilities, out of appropriated dollars, a much smaller amount is necessary for maintenance of the buildings we bought. If we had not purchased those buildings, these rents would have contributed to our balance-of-payments deficit. When our needs have changed and buildings were no longer needed, they were sold for much more than the purchase price.

One of the criteria for the new proposals is that they should not be used to start any project or activity which would require the expenditure of dollars if the supply of that foreign currency becomes exhausted.

INTEREST RATES AND INTEREST COSTS OF THE NATIONAL DEBT

Mr. SIKES. I do not want to get too deeply into monetary policy, Mr. Secretary, but there is a question of interest rates which touches the budget in at least one very important aspect.

Possibly it is the old saying of something out of sight is something out of mind, but this item for interest on the debt, which is an automatic appropriation under previous law, contributes to bigger budgets and bigger deficits just as do the appropriations carried in the annual appropriation bills. We do not appropriate the interest item in the

annual bills; in a sense, Congress never turns a hand to touch it. Yet it is possible that in any year it can, and on occasion has, increased perhaps more than the combined expenditure cuts made by a session of Congress in all the bills processed in that session.

The question is this, How much of the national debt currently rolls over each year? What are we having to pay on short-term Treasury borrowings? Are we having any success at aging the debt? By that, I mean getting more into longer term bonds, and so on. You mentioned this briefly in your statement, but you might supplement the record with some further elaboration and statistics.

(The following material was submitted by the Treasury Department:)

The amount of marketable public debt refunded each year includes all Treasury bill series (the 3-month series are rolled over four times a year, the 6-month series twice, and the annual series once) and certificates, notes, and bonds maturing within the year. In addition some securities which mature in future years may be "rolled over" in advance refunding operations.

In calendar year 1965 a total of \$171½ billion marketable securities were issued for cash and exchange, and \$169½ billion were retired. Of the total issued some \$134½ billion was in Treasury bill issues and \$37 billion was in Treasury notes and bonds. Of the \$214½ billion marketable debt outstanding at the end of December 1965, \$53½ billion of regular series bills will be refunded (\$15.6 billion will roll over four times; \$26 billion twice, and \$12 billion once) and \$33¼ billion Treasury notes and bonds will have to be refinanced in calendar year 1966. In addition \$6½ billion tax anticipation bills will be paid off at maturity in March and June 1966.

Nonmarketable debt "rolled over" during the year consists primarily of special securities issued to Government trust funds. During calendar 1965, for example, close to \$57 million of these special obligations were issued and a similar amount were retired. The amount of special issues outstanding on December 31, 1965, was \$46¼ billion.

During the past 6 years the Treasury has had considerable success in putting more marketable debt into long-term maturities. This has been accomplished primarily through use of the advance refunding technique which was introduced in mid-1960. In the 6 years since December 1959 debt maturing in the 5-20-year area has risen \$4.8 billion and debt maturing in more than 20 years has been increased \$9.1 billion. In this 6-year period the Treasury has been able to issue \$15.2 billion of bonds with maturities of 20 years or more—compared to \$10.0 billion in the previous 13 years—and \$62.8 billion of securities with maturities of from 5 to 20 years compared to \$46.2 billion in the earlier period. Due to the 4¼-percent interest rate ceiling the Treasury has been unable to consider debt extension beyond 5 years for the past 6 months and as a result the average maturity of the marketable debt has fallen from 5 years 4 months at the end of June 1965 to its present level of 4 years 11 months. This current level, however, is still appreciably higher than the low point of 4 years 2 months reached in 1960.

Attached is a part of the last public debt statement showing all Treasury marketable issues outstanding on January 31, 1966. Regular Treasury bills, for example, all maturing within 1 year, were costing the Treasury an average rate of 4.435 percent. The average discount rate payable on each issue of bills is provided in the left hand column which shows the increase in 1-year bill rates since the end of January 1965, 6-month rates since June 30, and 3-month rates since September. The coupon rates and effective yields on other issues outstanding are also provided in the table.

The latest issues of marketable Treasury securities maturing within 1 year include three maturities of Treasury bills and a 10-month certificate. The three bill maturities were sold at the following average bank discount rates: 4.695 percent on \$1.3 billion of 91-day bills issued February 17; 4.876 percent on \$1.0 billion of 182-day bills issued on the same date; and 4.699 percent on \$1.0 billion of 1-year bills issued January 31. The \$1.7 billion of 4¼ Treasury certificates dated January 19 and due November 15, 1966, were priced at 99.92 percent of face value to yield approximately 4.85 percent.

Expectational influences have played a substantial role in the interest rate increases since the announcement of the Vietnam escalation last July. The anticipation of higher rates in the wake of expected increases in military spending also created a rising demand for funds in the money and capital markets, as borrowers sought to increase inventories and maintain or accelerate schedules for new equipment and plant expansion. These stresses overlaid pressures already increasing as a result of more than 4 years of unbroken economic expansion. In the period leading up to the rise in the discount rate on December 5, some of the key indicators such as new corporate security flotations, increases in mortgage and consumer debt, new municipal borrowings, and particularly bank loan expansion, showed private demand for funds pressing increasingly on supply.

After the discount rate rise to $4\frac{1}{2}$ -percent credit demand continued unabated and expectational influences also continued to exert upward pressure on market rates in view of undiminished commitments and the failure of peace efforts in southeast Asia. Interest rate comparisons since January 31, 1965, in the money and capital markets are shown in the following table:

[In percent]

	Short-term issues		Long-term bonds		
	3-month Treasury bills	4-to 6-month prime commercial paper	Treasury bond average ¹	New Aa corporate reoffering rates ²	New municipal bonds
1965—Jan. 31.....	3.87	4.25	4.14	4.42	3.04
June 30.....	3.81	4.38	4.14	4.55	3.30
Dec. 3 (before discount rate rise).....	4.12	4.38	4.37	4.85	3.50
1966—Jan. 31.....	4.63	4.75	4.50	4.95	3.51
Feb. 18.....	4.66	4.88	4.65	5.08	3.70

¹ Bid yields on bonds due or first callable after 10 years.

² Treasury estimate of Moody's Aa rated debt issues.

³ Bond Buyer 20-bond index.

Statement of the public debt, Jan. 31, 1966

[On basis of daily Treasury statements]

Title of loan and rate of interest	Date of issue	Redeemable	Payable	Interest payable	Amount issued	Amount retired	Amount outstanding
INTEREST-BEARING DEBT							
Public issues, marketable:							
Treasury bills (maturity value):							
Series maturing and approximate yield to maturity:							
Feb. 3, 1966:							
3.927 percent.....	Aug. 5, 1965		Feb. 3, 1966	Feb. 3, 1966	{ \$1,000,955,000		\$2,202,185,000
4.082 percent.....	Nov. 4, 1965				{ 1,201,230,000		
Feb. 10, 1966:							
3.948 percent.....	Aug. 12, 1965		Feb. 10, 1966	Feb. 10, 1966	{ 1,000,124,000		2,200,935,000
4.046 percent.....	Nov. 12, 1965				{ 1,200,811,000		
Feb. 17, 1966:							
3.923 percent.....	Aug. 19, 1965		Feb. 17, 1966	Feb. 17, 1966	{ 1,000,551,000		2,201,653,000
4.097 percent.....	Nov. 18, 1965				{ 1,201,102,000		
Feb. 24, 1966:							
3.965 percent.....	Aug. 26, 1965		Feb. 24, 1966	Feb. 24, 1966	{ 1,000,351,000		2,200,856,000
4.104 percent.....	Nov. 26, 1965				{ 1,200,475,000		
Feb. 28, 1966: 4.062 percent.....	Feb. 28, 1965		Feb. 28, 1966	Feb. 28, 1966	{ 1,000,705,000		1,000,705,000
Mar. 3, 1966:							
3.990 percent.....	Sept. 2, 1965		Mar. 3, 1966	Mar. 3, 1966	{ 1,000,459,000		2,201,257,000
4.115 percent.....	Dec. 2, 1965				{ 1,200,798,000		
Mar. 10, 1966:							
4.024 percent.....	Sept. 9, 1965		Mar. 10, 1966	Mar. 10, 1966	{ 1,000,375,000		2,202,125,000
4.344 percent.....	Dec. 9, 1965				{ 1,201,750,000		
Mar. 17, 1966:							
4.013 percent.....	Sept. 16, 1965		Mar. 17, 1966	Mar. 17, 1966	{ 1,005,400,000		2,206,604,000
4.391 percent.....	Dec. 16, 1965				{ 1,201,144,000		
Mar. 22, 1966: (tax anticipation): 3.783 percent.....	Oct. 11, 1965		Mar. 22, 1966	Mar. 22, 1966	{ 3,009,402,000		3,009,402,000
Mar. 24, 1966:							
4.009 percent.....	Sept. 23, 1965		Mar. 24, 1966	Mar. 24, 1966	{ 1,000,491,000		2,208,747,000
4.505 percent.....	Dec. 23, 1965				{ 1,208,256,000		
Mar. 31, 1966:							
3.987 percent.....	Mar. 31, 1965		Mar. 31, 1966	Mar. 31, 1966	{ 1,000,304,000		3,200,714,000
4.133 percent.....	Sept. 30, 1965				{ 999,818,000		
4.457 percent.....	Dec. 30, 1965				{ 1,200,592,000		
Apr. 7, 1966:							
4.201 percent.....	Oct. 7, 1965		Apr. 7, 1966	Apr. 7, 1966	{ 1,001,464,000		2,305,621,000
4.532 percent.....	Jan. 6, 1966				{ 1,304,157,000		
Apr. 14, 1966:							
4.181 percent.....	Oct. 14, 1965		Apr. 14, 1966	Apr. 14, 1966	{ 998,759,000		2,300,509,000
4.585 percent.....	Jan. 13, 1966				{ 1,301,750,000		
Apr. 21, 1966:							
4.214 percent.....	Oct. 21, 1965		Apr. 21, 1966	Apr. 21, 1966	{ 1,002,628,000		2,303,720,000
4.673 percent.....	Jan. 20, 1966				{ 1,301,092,000		
Apr. 28, 1966:							
4.192 percent.....	Oct. 28, 1965		Apr. 28, 1966	Apr. 28, 1966	{ 1,001,010,000		2,302,146,000
4.596 percent.....	Jan. 27, 1966				{ 1,301,136,000		

Statement of the public debt, Jan. 31, 1968—Continued

[On basis of daily Treasury statements]

Title of loan and rate of interest	Date of issue	Redeemable	Payable	Interest payable	Amount issued	Amount retired	Amount outstanding
INTEREST-BEARING DEBT—continued							
Public issues, marketable—Continued							
Treasury bills (maturity value)—Continued							
Series maturing, etc.—Continued							
Apr. 30, 1966: 4.996 percent.....	Apr. 30, 1965		Apr. 30, 1966	Apr. 30, 1966	\$1,001,162,000		\$1,001,162,000
May 5, 1966: 4.219 percent.....	Nov. 4, 1965		May 5, 1966	May 5, 1966	1,000,131,000		1,000,131,000
May 12, 1966: 4.221 percent.....	Nov. 12, 1965		May 12, 1966	May 12, 1966	1,000,027,000		1,000,027,000
May 19, 1966: 4.259 percent.....	Nov. 18, 1965		May 19, 1966	May 19, 1966	1,000,958,000		1,000,958,000
May 26, 1966: 4.253 percent.....	Nov. 26, 1965		May 26, 1966	May 26, 1966	1,001,322,000		1,001,322,000
May 31, 1966: 3.954 percent.....	May 31, 1965		May 31, 1966	May 31, 1966	1,000,886,000		1,000,886,000
June 2, 1966: 4.249 percent.....	Dec. 2, 1965		June 2, 1966	June 2, 1966	1,000,153,000		1,000,153,000
June 9, 1966: 4.468 percent.....	Dec. 9, 1965		June 9, 1966	June 9, 1966	1,000,088,000		1,000,088,000
June 16, 1966: 4.563 percent.....	Dec. 16, 1965		June 16, 1966	June 16, 1966	1,000,503,000		1,000,503,000
June 22, 1966 (tax anticipation series):							
3.941 percent.....	Oct. 11, 1965		June 22, 1966	June 22, 1966	1,002,548,000		4,522,423,000
4.075 percent.....	Nov. 24, 1965		June 23, 1966	June 23, 1966	2,513,229,000		
4.281 percent.....	Jan. 5, 1966		June 23, 1966	June 23, 1966	1,006,646,000		1,003,298,000
June 23, 1966: 4.692 percent.....	Dec. 23, 1965		June 30, 1966	June 30, 1966	1,001,132,000		2,001,779,000
June 30, 1966:							
3.807 percent.....	June 30, 1965		July 7, 1966	July 7, 1966	1,001,647,000		1,003,154,000
4.655 percent.....	Dec. 30, 1965		July 14, 1966	July 14, 1966	1,000,387,000		1,000,387,000
July 7, 1966: 4.718 percent.....	Jan. 6, 1966		July 21, 1966	July 21, 1966	1,001,138,000		1,001,138,000
July 14, 1966: 4.797 percent.....	Jan. 13, 1966		July 28, 1966	July 28, 1966	1,000,239,000		1,000,239,000
July 21, 1966: 4.770 percent.....	Jan. 20, 1966		July 31, 1966	July 31, 1966	1,000,247,000		1,000,247,000
July 28, 1966: 4.699 percent.....	Jan. 27, 1966		Aug. 31, 1966	Aug. 31, 1966	1,000,277,000		1,000,277,000
July 31, 1966: 3.875 percent.....	July 31, 1965		Sept. 30, 1966	Sept. 30, 1966	1,000,499,000		1,000,499,000
Aug. 31, 1966: 4.006 percent.....	Aug. 31, 1965		Oct. 31, 1966	Oct. 31, 1966	999,948,000		999,948,000
Sept. 30, 1966: 4.296 percent.....	Sept. 30, 1965		Nov. 30, 1966	Nov. 30, 1966	1,000,580,000		1,000,580,000
Oct. 31, 1966: 4.192 percent.....	Oct. 31, 1965		Dec. 31, 1966	Dec. 31, 1966	1,001,028,000		1,001,028,000
Nov. 30, 1966: 4.277 percent.....	Nov. 30, 1965		Jan. 31, 1967	Jan. 31, 1967	1,001,391,000		1,001,391,000
Dec. 31, 1966: 4.731 percent.....	Dec. 31, 1965						
Jan. 31, 1967: 4.699 percent.....	Jan. 31, 1966						
Total Treasury bills.....					61,588,797,000		61,588,797,000
Certificate of indebtedness:							
4½ percent A-1966 (effective rate 4.8505 percent).....	Jan. 19, 1966		Nov. 15, 1966	May 15 to Nov. 15	1,652,194,000		1,652,194,000
Treasury notes:							
4 percent A-1966 (effective rate 4.0616 percent).....	Feb. 15, 1962		Aug. 15, 1966	Feb. 15 to Aug. 15	12,169,091,000	\$1,108,563,000	11,060,468,000
3½ percent B-1966 (effective rate 3.6530 percent).....	May 15, 1962		Feb. 15, 1966	do.	6,386,597,000	4,191,470,000	2,195,067,000
3½ percent C-1966.....	Aug. 15, 1964		do	do.	4,089,918,000	1,443,323,000	2,596,595,000

4 percent D-1966	Nov. 15, 1964	May 15, 1966	9,518,942,000
4 percent E-1966 (effective rate 4.0898 percent)	Feb. 15, 1965	do	2,253,821,000
3 3/4 percent A-1967 (effective rate 3.8363 percent)	Sept. 15, 1962	Feb. 15 to Aug. 15	2,929,360,000
3 3/8 percent B-1967 (effective rate 3.6800 percent)	Mar. 15, 1963	do	1,928,887,000
4 percent C-1967 (effective rate 4.1034 percent)	Aug. 13, 1965	do	5,150,687,000
4 1/2 percent D-1967 (effective rate 4.3683 percent)	Nov. 15, 1965	do	9,748,216,000
1 1/2 percent EA-1966	Apr. 1, 1961	May 15 to Nov. 15	674,981,000
1 1/2 percent EO-1966	Oct. 1, 1961	Apr. 1 to Oct. 1	356,530,000
1 1/2 percent EA-1967	Apr. 1, 1962	do	270,496,000
1 1/2 percent EO-1967	Oct. 1, 1962	do	457,177,000
1 1/2 percent EA-1968	Apr. 1, 1963	do	212,127,000
1 1/2 percent EO-1968	Oct. 1, 1963	do	115,331,000
1 1/2 percent EA-1969	Apr. 1, 1964	do	60,545,000
1 1/2 percent EO-1969	Oct. 1, 1964	do	158,926,000
1 1/2 percent EA-1960	Apr. 1, 1965	do	87,529,000
1 1/2 percent EO-1970	Oct. 1, 1965	do	39,285,000
Total Treasury notes			
			11,024,411,000

Treasury bonds:

3 3/4 percent 1966 (effective rate 3.7904 percent)	Nov. 15, 1960	May 15 to Nov. 15	3,597,473,500
2 1/2 percent 1962-67	May 5, 1942	June 15 to Dec. 15	1,430,318,400
2 1/2 percent 1963-68	Dec. 1, 1942	do	687,846,100
2 1/2 percent 1964-69 (Apr. 15, 1943)	Apr. 15, 1943	do	1,039,685,000
2 1/2 percent 1964-69 (Sept. 15, 1943)	Sept. 15, 1943	do	1,214,145,500
3 percent 1966	Feb. 28, 1958	do	2,526,795,500
2 1/2 percent 1965-70	Feb. 1, 1944	Feb. 15 to Aug. 15	1,024,402,000
2 1/2 percent 1966-71	Dec. 1, 1944	Mar. 15 to Sept. 15	2,408,927,500
3 3/8 percent 1966	Mar. 15, 1961	do	1,397,769,000
2 1/2 percent 1967-72 (June 1, 1945)	June 1, 1945	do	851,408,000
2 1/2 percent 1967-72 (Oct. 20, 1944)	Oct. 20, 1944	May 15 to Nov. 15	2,437,629,500
3 3/8 percent 1967 (effective rate 3.6083 percent)	Mar. 15, 1961	June 15 to Dec. 15	7,947,261,000
2 1/2 percent 1967-72 (Nov. 15, 1945)	Nov. 15, 1945	Mar. 15 to Sept. 15	1,951,797,250
3 3/8 percent 1968 (June 23, 1960) (effective rate 3.9187 percent)	June 23, 1960	May 15 to Nov. 15	3,603,544,150
3 3/4 percent 1968	Apr. 18, 1962	Dec. 15, 1972	11,688,808,500
3 3/8 percent 1968 (Sept. 15, 1963) (effective rate 4.0704 percent)	Sept. 15, 1963	May 15 to Dec. 15	9,007,250,000
4 percent 1969 (Aug. 15, 1962) (effective rate 4.0858 percent)	Aug. 15, 1962	Aug. 15, 1968	3,747,358,500
4 percent 1969 (Oct. 1, 1957) (effective rate 4.0407 percent)	Oct. 1, 1957	Nov. 15, 1968	1,591,434,000
4 percent 1970 (Jan. 15, 1965) (effective rate 4.0740 percent)	Jan. 15, 1965	Feb. 15 to Aug. 15	3,727,990,500
4 percent 1970 (June 20, 1963) (effective rate 4.0773 percent)	June 20, 1963	Apr. 1 to Oct. 1	6,264,017,500
4 percent 1971 (effective rate 3.8499 percent)	Mar. 1, 1962	Feb. 15 to Aug. 15	4,381,420,000
3 3/8 percent 1971 (effective rate 3.9713 percent)	May 15, 1962	do	4,129,240,000
4 percent 1972 (Nov. 15, 1962)	Nov. 15, 1962	do	2,805,626,500
4 percent 1972 (Sept. 15, 1962) (effective rate 4.0840 percent)	Sept. 15, 1962	May 15 to Nov. 15	2,760,420,000
4 percent 1973 (effective rate 4.1491 percent)	Sept. 15, 1963	Feb. 15 to Aug. 15	2,343,511,000
4 1/2 percent 1973 (effective rate 4.2241 percent)	July 22, 1964	do	2,578,547,000
		do	3,893,894,000
		May 15 to Nov. 15	4,356,999,500
			211,000

[On basis of daily Treasury statements]

Title of loan and rate of interest	Date of issue	Redeemable	Payable	Interest payable	Amount issued	Amount retired	Amount outstanding
INTEREST-BEARING DEBT—Continued							
Public issues, marketable—Continued							
Treasury bonds—Continued							
4½ percent 1974 (effective rate 4.1721 percent).....	Jan. 15, 1985		Feb. 15, 1974	Feb. 15 to Aug. 15	\$3,130,373,500		\$3,130,373,500
4½ percent 1974 (effective rate 4.2306 percent).....	May 15, 1984		May 15, 1974	May 15 to Nov. 15	3,993,843,000		3,993,843,000
4½ percent 1974 (effective rate 3.9517 percent).....	Dec. 2, 1987		Nov. 15, 1974	do	2,214,772,500	\$240,500	2,215,044,500
4½ percent 1975-85 (effective rate 4.2631 percent).....	Apr. 5, 1983	May 15, 1975	May 15, 1983	do	1,217,610,500	1,727,500	1,217,632,000
4½ percent 1978-83	May 1, 1983	June 15, 1978	June 15, 1983	June to Dec. 15	1,606,084,000	98,300	1,606,084,000
4 percent 1980 (effective rate 4.0454 percent).....	Jan. 23, 1980		Feb. 15, 1980	Feb. 15 to Aug. 15	2,611,693,000	3,188,500	2,611,960,000
3½ percent 1985 (effective rate 3.381 percent).....	Oct. 3, 1988		Nov. 15, 1980	May 15 to Nov. 15	1,913,943,000	3,995,000	1,917,937,000
3½ percent 1987-92 (effective rate 4.2340 percent).....	June 15, 1982		May 15, 1982	do	1,194,843,000	9,007,000	1,194,890,000
4½ percent 1988-93 (effective rate 4.0082 percent).....	Aug. 15, 1983	Aug. 15, 1987	May 15, 1992	Feb. 15 to Aug. 15	3,817,882,500	50,000	3,817,892,500
4½ percent 1989-94 (effective rate 4.1905 percent).....	Jan. 17, 1983	Feb. 15, 1988	Feb. 15, 1993	do	3,250,008,000	146,000	3,250,154,000
3½ percent 1990 (effective rate 3.4907 percent).....	Apr. 15, 1988	May 15, 1989	May 15, 1990	May 15 to Nov. 15	1,507,406,000	18,499,000	1,525,905,000
3 percent 1995	Feb. 14, 1988		Feb. 15, 1990	Feb. 15 to Aug. 15	2,745,117,000	52,814,500	2,797,931,500
3½ percent 1998 (effective rate 3.5154 percent).....	Feb. 13, 1985		Nov. 15, 1998	May 15 to Nov. 15	4,462,889,000	51,273,000	4,411,666,000
Oct. 3, 1980							
Total Treasury bonds.....					134,971,718,650	30,800,503,000	104,171,215,650
Total public issues marketable.....					269,480,851,650	41,824,914,000	217,655,937,650

Mr. SIKES. Please discuss generally the interest rate situation.

Secretary FOWLER. As the Director indicated in his comment, the principal factor contributing to the increased cost of carrying the debt in fiscal 1967, as compared to fiscal 1966, has been the increase in interest rates and, over the last 4 or 5 years, the main factor in this item has been the increase in short-term rates. Bill rates are up from about 2½ percent 4 or 5 years ago to a level last year of about 3.9 percent. This trend upward had desirable elements as far as our balance-of-payments picture was concerned since it tended to retard the flow of short-term money out of the United States.

During that same period of time, interest rates for long-term money tended to remain fairly stable. Therefore, while we were faced with increased costs for carrying the debt, which I recognize as a very substantial item, we nevertheless were receiving a countervailing benefit in terms of our balance of payments.

We are all conscious of the fact there are and have been tremendous demands for credit. In fact, bank credit increased about \$27 billion last year. These pressures have pushed the cost of short-term money, 90-day bills, from the 3.8- to 3.9-percent levels of last summer to a current level of 4.6 to 4.7 percent. In addition, for the first time in several years there has been a substantial movement upward on long-term money, such as mortgages, State and local bonds, and long-term corporate bonds, as well as on long-term Treasury bonds.

In a nutshell, the very large demand for credit operating in the money market has, by reason of the relationship of supply and demand for money, caused the cost of money to move up.

I certainly hope this is a cyclical, temporary phenomenon. I would hope that after the Vietnam period is over, monetary policy—which is primarily involved here and is, as you know, under the control of the Federal Reserve System—could be established so that we could again look forward to a time in which the cost of money would turn down. We have characteristically been a low-cost-of-money country because of the very capable and effective capital-generating institutions that we have in our economy. Being able to get money at a very reasonable cost is a real national asset.

Mr. SIKES. How much 5-percent money are you having to borrow?

Secretary FOWLER. Right now we are in the middle of a financing in which we are offering to turn over a series of outstanding issues. The potential total of the debt being refinanced is \$27 billion, of which only \$13.7 billion is held in private hands—the rest is held in Government trust funds and by the Federal Reserve System. The holders of those \$13.7 billion in bonds are being given an opportunity to buy a 5-percent note maturing in about 4¾ years. That is the only 5-percent issue outstanding.

I would like to add that, of course, the relationship of credit and its increase to interest rates is a matter where responsibility is that of the Federal Reserve Board. In my comments I have tried to be factual and not make any value judgments.

PROPOSED SALES OF POOL PARTICIPATIONS IN GOVERNMENT-OWNED
OBLIGATIONS

Mr. FLOOD. Mr. Secretary, you have made a classical reply.

Keeping freshly in mind what you just said, and knowing how enamored you, the President, and the Budget Director, are with this fascinating technique which started a few years ago, of disposing into the private sector of certain types of Government-owned obligations, and so on, guarantees instead of direct loans, grants, and so on—all those things being true, and keeping in mind exactly what you have just said in this classical dissertation, where in the world are the people in the private sector going to get the money to buy these several billion dollars worth of obligations? Where are they going to get the money to perform this panacea and what are they going to pay for it and what happens to the credit structure if and when they do, and so on?

How do you do this? Haven't you just cut 6 inches off the end of the blanket and sewed it at the top because the blanket is not long enough—or have you?

Secretary FOWLER. That might be one characterization of it. The disposition of the holdings into the private credit market will displace other uses of money there and—

Mr. FLOOD. That is a very careful understatement, of course.

Secretary FOWLER (continuing). Will add something to the very sharp competition for funds, as my comments have indicated.

We still believe—

Mr. FLOOD. Did your comments indicate that they will be battling in the marketplace for these funds?

Secretary FOWLER. Yes. There would also be battling in the marketplace for funds if the Treasury had to go out and borrow the money instead of disposing of these assets.

Mr. FLOOD. I understand that.

Secretary FOWLER. That is really the point. It is a question of two alternatives. Rather than have a larger deficit and being forced to go out and borrow the money, we have chosen the course of disposing of some of the assets held by the Government. By selling the assets, the same basic pressures on the money market are created as if we had to borrow the funds.

Mr. FLOOD. I submit you have not answered the question. You have simply restated it. You have said what I said differently.

Secretary FOWLER. Perhaps we are in agreement, then.

Mr. FLOOD. I don't know where we are. You have simply restated the question. You didn't give me an answer.

Secretary FOWLER. Let me try again.

Mr. FLOOD. What about the Director? He seemed more enamored with it than you did, really.

Mr. SCHULTZE. I was enamored of the answer.

Mr. FLOOD. The answer?

Mr. SCHULTZE. I have two points to add. First, the amount of asset sales involved is, of course, relatively small compared to the total capital market flow of funds in this country. While you are quite correct—

Mr. FLOOD. Now that is an answer. That is impressive.

Mr. SCHULTZE. I don't have the numbers here at hand, but it is a very small percentage.

Second, and this is the point the Secretary made, that the total pressures on the capital market from the Government sector will be determined not merely by sale of Federal mortgages and loans but also by sales of Treasury securities.

Mr. FLOOD. He said that.

Mr. SCHULTZE. As we reduce the budget deficit through sales of these securities, on the one hand those securities will compete in the market more than would otherwise have been the case, but the Treasury will be competing in the market on its own less than otherwise would have been the case.

If you put these two things together there should be no major disruption of the market on account of these sales. Clearly there will be an effect, but while \$4.7 billion, in the context of the Federal budget is fairly large, in the context of the total capital market it is very small. It seems to me to come out even.

PROGRAMS IN AID OF STATE AND LOCAL GOVERNMENTS

Mr. SIKES. On aid to State and local governments—Mr. Director, I am sure that you have seen reams of written and spoken material by people who have a real concern about the future autonomy of State and local government units, their independence of Washington, or lack of it.

How many Federal programs would you say there are now of aid to States, counties and cities? Would they not probably touch virtually every category of every State and local budget?

That will take some consideration. Please supply something for the record on this matter.

That is all, Mr. Chairman.

(The following information was furnished for the record:)

There are various ways of counting the number of Federal programs aiding States and localities, depending on the definition used. For instance, in the definition of grants-in-aid used by the Bureau of the Budget, the value of commodities contributed to the school lunch program are included, as are forest roads built by the Federal Government and transferred to a local government. Other definitions—such as in the national income accounts—include only monetary grants. Another definitional problem is whether to list activities with several components as a single program or a group of programs. For instance, the work of the Office of Economic Opportunity might be listed as a single grant program or the Neighborhood Youth Corps, Head Start, work experience, etc., components could each be counted as separate grants. There is no single compilation of Federal grant programs which is used universally.

Accordingly, perhaps two answers will be most helpful to the first part of the question. Special analysis J of the 1967 budget, "Federal Aid to State and Local Governments" tends to count programs in their entirety. The grants-in-aid and shared revenue programs shown in that compilation represent nearly 175 different appropriation accounts. An educated guess as to the number if we were to count each component of grant programs separately would raise the total to over 300.

The impact of Federal aids on State and local budgets varies greatly. For example, the entire cost of administration of unemployment security programs comes from Federal grant funds. At the other extreme, there is virtually no Federal grant assistance for police, correctional, or fire protection services. However, given the number and variety of Federal aids, it is probably safe to assume that virtually every State and local government unit is affected by these aids. Moreover, although the Federal funds normally are designated for particular uses, the

mere availability of these funds would have a direct or indirect impact on State-local budgets for all activities.

Mr. MAHON. Mr. Passman?

Mr. PASSMAN. Mr. Chairman, I will be as brief as I can.

Off the record, please.

(Discussion held off the record.)

USE OF PER CAPITA DEBT DATA

Mr. PASSMAN. Some of this testimony reminds me of two constituents of mine, Henry and Lucy Jones, a very fine couple. They had four very fine children and they were \$3,000 in debt.

One day Lucy gave birth to triplets, and to celebrate the great event they went out and borrowed an additional \$1,500 and eventually spent that.

Later—at a more rational moment—they were bemoaning the fact that they had three more mouths to feed and they now owed \$4,500. The only way they could rationalize their action was to use the Federal Government formula—on a per capita basis the debt is the same. That seems to be about the way we are operating.

TRENDS IN SELECTED FEDERAL FINANCES

As we go down Pennsylvania Avenue I believe we see on one of the buildings the inscription, "What is past is prologue, study the past." Briefly I shall do that so as to establish the trends. I want to say to these great witnesses before us that they are dedicated men. I want to commend the chairman for the beautiful compliment he paid to the Secretary of the Treasury and the Director of the Bureau of the Budget at the beginning of this hearing.

However, good Budget Directors come and go; good Secretaries of the Treasury come and go. That is to be regretted.

Some of us on the Committee on Appropriations have been on the committee a long time. I have been here 18 years. Some of the members have been on the committee 25 and 30 years.

Consequently, I have been looking at similar charts on spending and on the debt and so on for about 18 years. Dedicated men, sincere men presented those charts. I do not recall a set of them that ever panned out.

All I can say is that you have gone to a lot of trouble to help us, but again, recalling those two inscriptions on the building—if it is true that we should study the past, then these charts will not pan out, either. I hope they will, because you have put your time and your hearts in them.

Since we have been establishing trends today, it might be useful to see whether this is correct.

In fiscal year 1964, total payments to the public amounted to \$120 billion. Is that correct, sir?

Mr. SCHULTZE. Sounds correct, sir.

Mr. PASSMAN. In fiscal 1965, total payments to the public increased to \$122 billion, and it is anticipated that the total payments to the public in fiscal 1966 will be \$135 billion, and the projection here is total payments to the public in 1967 of \$145 billion. Is that correct?

Mr. SCHULTZE. That is right.

Mr. PASSMAN. So from 1964, projecting it into 1967, the annual expenditures of payments to the public have gone up by about \$25 billion. Have we stated that substantially correct?

Mr. SCHULTZE. That is correct, sir.

Mr. PASSMAN. Then moving along to the public debt—and again this is a nonpartisan committee—I believe when President Truman left the White House in 1952 the public debt stood at \$259 billion.

Mr. SCHULTZE. That is correct.

Mr. PASSMAN. When General Eisenhower moved out in 1960 the public debt stood at \$291 billion.

On December 31, 1965, the public debt was around \$318 billion.

Mr. SCHULTZE. At the end of fiscal year 1965 it was about \$318 billion.

Mr. PASSMAN. So if you will use trends and periods of time rather than pinpointing one set of charts, we can see that the public debt, your predictions notwithstanding, has substantially increased during the past 5 years, because under General Eisenhower it increased approximately \$32 billion in 8 years and in the past 5 years under the last two Presidents it has moved up approximately \$27 billion. Is that correct?

Mr. SCHULTZE. It is true that the debt has moved up under President Eisenhower and each succeeding President.

GOLD SUPPLY AND CLAIMS AGAINST IT

Mr. PASSMAN. That worries me, whether or not it worries you.

Of course, as chairman of the Foreign Operations Subcommittee on Appropriations, I should know a little something about our gold reserves and the balance-of-payments situation. I live with it practically all the time.

Mr. Secretary, as I read the record, 12 years ago our gold reserves stood at approximately \$23.5 billion. Is that correct?

Secretary FOWLER. That is approximately correct.

Mr. PASSMAN. On December 31 of this year, 12 years later, our gold reserves had been reduced to approximately \$13.8 billion.

Secretary FOWLER. That is correct.

Mr. PASSMAN. Technically, all of our gold is pledged to meet foreign dollar claims if the demand should arise. Is that correct?

Secretary FOWLER. That is correct.

Mr. PASSMAN. Then you certainly could not take \$13 billion of gold revenues and pay off \$29 billion worth of foreign dollars claims. Incidentally, that is the amount given to me by the Treasury earlier. You said \$26 billion. However, that is the position we are in, is that correct?

Secretary FOWLER. To the extent dollar claims are held in official accounts.

Mr. PASSMAN. And foreign dollar claims have a priority over our claims, do they not, in meeting our obligations and in supporting our currency?

Secretary FOWLER. As a practical matter, yes.

Mr. PASSMAN. Is it also true that the budget has been balanced only six times in the past 35 years?

Secretary FOWLER. That is correct.

PRICING BASIS FOR COMPONENTS OF GNP

Mr. PASSMAN. Now, Mr. Secretary, very briefly moving along on these trends since it seems more realistic to deal with a longer time period than these charts do, I wonder if you would put in the record at this point a breakdown of the gross national product for calendar 1965?

(The following material was submitted by the Treasury Department:)

<i>1965 GNP (revised February 1966)</i>		<i>Billions</i>
Personal consumption expenditures.....	\$428.7	
Business fixed investment.....	69.8	
Residential construction.....	27.6	
Inventory investment.....	8.2	
Net exports of goods and services.....	7.2	
Federal Government purchase of goods and services.....	66.6	
State and local government purchase of goods and services.....	68.2	
Total gross national product.....	676.3	

The gross national product is the market value of the annual output of goods and services produced by the Nation's economy. In this definition the term "market value" refers to the value at prices actually paid by the final purchasers of these goods and services. No distinction is made as to whether the prices are wholesale or retail. Many industrial purchases are made directly from manufacturers.

Mr. PASSMAN. Do you value goods at the wholesale or retail price?

Mr. SCHULTZE. It depends on the specific item. For consumption expenditures you would use retail prices. Investment goods—machinery—tend to be sold mainly on a wholesale basis, and hence are at wholesale prices, so it depends on that.

Mr. PASSMAN. When you include the segments of interest, brought up by Mr. Jones earlier, would you indicate the amount wholesale, the amount retail, and the amount of interest and the various other items so those who read the hearings can get a general idea of what we mean when we talk about GNP?

INFLATION EXAMPLES

If I had bought a \$100,000 insurance policy in 1939, the insurance company would now say it would offer only 44 percent of the protection I bought in 1939. What brought that about—issuance of better insurance since then or inflation?

Mr. SCHULTZE. For given dollar amounts it is brought about by a rise in prices.

Mr. PASSMAN. If I bought this suit back in 1940 for \$79.75 and you get \$159.95 for it now, is that increased cost brought about by inflation or a better suit?

Mr. SCHULTZE. It depends on the suit.

Mr. PASSMAN. Same brand, same quality.

Mr. SCHULTZE. If there is no improvement in quality then I would say it is inflation.

COMPOSITION OF EXPORT TRADE TOTALS

Mr. PASSMAN. Mr. Chairman, this has caused a lot of us some concern. We do know you can take statistics and prove or disprove just about anything.

When we export our commodities, do we claim nonmilitary commodities such as agricultural commodities, whether or not they are surplus? If the exports are financed by the AID program do we claim them as an export in getting our total?

Secretary FOWLER. We do. We have a breakdown which indicates which are out of that category and which are in. When we calculate the trade surplus we do include that.

Mr. PASSMAN. When you ship out the goods is it on an f.o.b. basis or do you include the freight and insurance to get the total value of our exports?

Secretary FOWLER. We follow the same costing pattern consistently in treating exports and imports. However, I would like to supply a detailed statement on the matter you have reference to. Like you, I have read newspaper reports on this question with interest.

Mr. PASSMAN. That is what I am leading up to. I am not doing it in a critical vein because we have to work out these problems together. We cannot do it by quarreling but possibly we can do it by studying the facts as they are.

If we include what we give away, and also include the freight and insurance to get our total exports and imports from foreign countries do not include the freight and insurance, then I can see some validity in this article.

This writer states in the article that we have a trade deficit. Your word will be good enough for me, but I wish you would insert in the record a statement on that point.

Secretary FOWLER. I shall be glad to.

(The following statement was supplied later:)

U.S. exports and U.S. imports are reported at the prices received by the U.S. seller or paid to the foreign seller before shipping and insurance charges. Thus, the U.S. values both its imports and its exports purely on their commodity content. This method of presenting trade statistics follows the procedure established by the International Monetary Fund in its balance-of-payments manual.

Of course, our importers also pay freight and insurance on the goods they buy abroad, and foreign importers pay freight and insurance on exports from the United States. The manner in which these payments affect the balance-of-payments statistics depends on who pays the charges and to whom they are paid. If freight is paid by American importers to foreign shipping companies, the amount paid is reflected as an outflow in our balance of payments under the transportation item. Moreover, net insurance payments to foreigners for marine insurance are included under "Miscellaneous services" in the balance of payments. Therefore, neither treatment affects the merchandise trade balance. Conversely, freight paid by foreign purchasers of U.S. exports to U.S. shipping companies to domestic insurers are treated as inflows under the "Transportation" item, again with no effect on the trade balance.

If U.S. importers pay freight or insurance charges to U.S. shipping or insurance companies, or foreign importers of U.S. exports pay freight or insurance charges to foreign shipping or insurance companies, there is no effect on the U.S. balance of payments.

Although precise data are not available on freight insurance payments and receipts on a net basis, they would not significantly affect the trade surplus as presently reported.

If ocean freight receipts and payments were included in the trade account, the trade surplus would still be quite large. In 1964, for example, the net deficit on account of ocean freight receipts and payments was about \$350 million, while our trade surplus was \$6.7 billion.

As to including aid shipments in our export balances—

First: These are real shipments, real purchases from American firms. They are consequently real exports that must be accounted for in considering the Nation's work for a year.

Second: The overall export figures are important since they show all of our actual exports, regardless of how financed, and how the particular method of financing affects the balance of payments. Commercially financed exports may be financed on a cash, short or longer term basis. Government assisted exports have similar elements and include the range from Public Law 480, AID to Eximbank credits.

Third: The Commerce Department balance-of-payments statistics, in addition to showing our overall merchandise exports, also show separately that part financed by Government grants and capital (see tables 1 and 2, Survey of Current Business, December 1965, pp. 18 and 20).

PROGRAMS OF FOREIGN ASSISTANCE

Mr. PASSMAN. I have one final observation, Mr. Chairman. I know this is one of your problems. I know it is one of the problems of the distinguished Director of the Budget because we have so many segments of foreign assistance; some of them may be good. Some people think they are all good.

Many times we fail to deal in realities and unintentionally we deal with generalities.

For example, the actual request for foreign assistance for the first 6 months of 1965 in new funds was \$7,512 million, if you pick up everything that one can label "foreign assistance." That is not nearly all of it, but taking only those things that truly can be called foreign assistance—Export-Import Bank long-term loans, for instance, \$900 million. I think the average loan terms are about 18 years. I am not talking about the total amount of the Bank's business because some of it is short term.

It would appear to me that if the committee could get facts—and I think I have put this table together accurately, and it has not been disputed by anybody in the executive branch so far as the 15 items are concerned—if you could present them on that basis, Congress could better understand it and I believe you people who are responsible for raising the money could better understand it.

I will give you that chart, Mr. Director, and if you disprove those figures call me.

GAINS FROM SEIGNIORAGE ON COINAGE

Mr. Chairman, I will conclude with two questions.

We passed legislation last year removing silver from the coins. I supported the legislation because I think we are dealing with a diminishing national resource and I do not see the need of wearing it out in our pockets, and our annual consumption may be greater than the total world production.

How much money will we save by taking the silver out of the coins?

Secretary FOWLER. In the fiscal year 1966 the revenues from seigniorage—

Mr. PASSMAN. Will you answer the question as I asked it: What will be the amount of money we would have spent for making these coins which we will not spend on account of making a different coin?

Secretary FOWLER. Total receipts from seigniorage in fiscal year 1966 will be \$901 million.

For fiscal 1967, we estimate it will be approximately \$1.6 billion.

Mr. PASSMAN. That is the amount we actually save by using the cheaper metal?

Secretary FOWLER. That is the total seigniorage.

Mr. PASSMAN. Does that mean you sell the silver to the Treasury, or do you make an offsetting entry on your statement?

Secretary FOWLER. Since the Treasury already owns the silver, no sale transaction is involved.

Mr. PASSMAN. But you do have a bookkeeping transaction. In reality, dealing with fiscal 1966 and 1967, if we had not reduced the silver content in the coins, then the deficit would have been approximately \$2.5 billion more.

Secretary FOWLER. For fiscal 1967, seigniorage receipts are estimated at \$1.6 billion; for fiscal 1966 the estimate is \$900 million. Without these receipts, the deficits would be correspondingly higher.

Mr. PASSMAN. In fiscal 1966 the deficit would have been \$900 million more if we had not reduced the silver content in our coins.

Secretary FOWLER. That is the fiscal 1966 seigniorage estimate. For 1967, the estimate is \$1.6 billion.

Mr. PASSMAN. And the deficit then instead of \$1.8 billion would be raised \$1.6 billion to get the true deficit.

I am afraid the public failed to understand that in your press release. That is why I wanted it in the record. Those who read the record should know it is a one-time windfall—at least to a considerable extent.

Secretary FOWLER. That is correct. We expect seigniorage receipts to be less in the years following 1967.

Mr. PASSMAN. You are not reflecting a true deficit when you take advantage of a windfall, something caused by a one-time, one-shot piece of legislation, are you?

Secretary FOWLER. We also reflect the other side of the picture. Costs for special purposes such as South Vietnam are treated as expenditures. We certainly hope that will not be a regular item in the budget. I think we properly reflected the deficit—we took into account special one-shot items on the miscellaneous receipt side as well as one-shot items on the expenditure side.

PRESENT ESTIMATE OF VIETNAM WAR COSTS

Mr. PASSMAN. You mention, Mr. Director, the cost of the war in South Vietnam. You are able, are you not, to get a fairly accurate estimate of what you think it may cost for fiscal 1967?

Mr. SCHULTZE. Under currently foreseeable conditions that is correct.

Mr. PASSMAN. You are able to give what you consider to be a fair estimate of the cost?

Mr. SCHULTZE. What we consider to be the fair estimate of cost, given what we now know, that is correct.

Mr. PASSMAN. Off the record.

(Discussion held off the record.)

CONTINGENT OBLIGATIONS OF THE GOVERNMENT

Mr. PASSMAN. We have what we refer to as statutory obligations. If I own a \$5,000 Government bond it is just as much an obligation to pay me my interest on that bond as it is to pay a man drawing military pension? Is not one obligation as binding as the other?

Mr. SCHULTZE. I am not a lawyer and I hesitate to get into it.

Mr. PASSMAN. Then we will defer to the Secretary of the Treasury for an answer because he handles bonds.

If I buy bonds, it is just as legally binding on you to pay me my interest when it is due as it is to send retired Major Brown his monthly pension check, is it not?

Secretary FOWLER. I would agree.

Mr. PASSMAN. So if I take the statutory obligations, about 115 of them now, project them to completion and figure up the cost, I come up with a figure of about \$800 billion.

If you have such a projection or could prepare one, would you insert it in the record at this point.

Thank you, Mr. Chairman.

(The following material was submitted by the Treasury Department:)

From time to time various estimates have been made of direct and contingent liabilities of the Federal Government. Such estimates have generally included some or all of the following items: (1) the direct Federal debt, (2) accounts payable for goods and services received, (3) contractual amounts for undelivered orders, (4) unobligated authorizations, (5) estimates of new obligational authority which, in the judgment of the estimator, will be approved by the Congress to carry on and expand certain expenditure programs for a selected number of years, (6) financial contingencies arising from the operations of Federal credit programs and insurance activities and unpaid subscriptions to international credit agencies, and (7) actuarially calculated unfunded liabilities of certain annuity and pension systems of the Federal Government.

Of those categories, only items (1), (2), and (3) are characterized as legal obligations either in terms of real liabilities on the central books of the Treasury, or as real liabilities and undelivered orders and contracts on the books of operating agencies. The 1967 Budget estimates the direct Federal debt (item 1) will be \$321.7 billion on June 30, 1967, and obligated balances representing accounts payable and undelivered orders for goods and services less receivables (items 2 and 3) will total \$78.4 billion on that date.

Item 4, unobligated authorizations, are expected to be \$43.9 billion on June 30, 1967, representing unobligated balances of no-year and multiple-year accounts which are unexpired for obligations.

Item 5, estimates of obligational authority expected to be granted in the future, requires, essentially, a series of independent judgments relative to various programs. The administrative budget request for 1967 represents the President's judgment of program needs as justified within budgetary restraints occasioned by special Vietnam expenditures and avoidance of excessive Federal demand on the resources of the domestic economy. The balance of the amounts requested are reflected in the obligated and unobligated authorizations mentioned above for June 30, 1967. The new planning-programming-budgeting system currently being introduced in the major agencies is expected to provide a better base for such estimates for a longer period into the future.

Item 6, financial contingencies, is made up of four distinct categories (a) contingencies for loans guaranteed and insured under programs of Federal credit agencies, such as FHA and VA which amounted to \$71.8 billion on June 30, 1965, (b) outstanding commitments to insure or guarantee under the programs included in (a) which amounted to \$7.5 billion on June 30, 1965, (c) contingencies for other insurance and guarantees in force such as FDIC and FSLIC deposit insurance programs, which amounted to \$341.1 billion on June 30, 1965, and (d) other financial commitments in the form of unpaid subscriptions to international lending agencies which amounted to \$7.1 billion on June 30, 1965. These different categories represent essentially different things, consequently, they cannot be added together to arrive at valid and meaningful totals. In general, the extent of ultimate payment of these contingencies, if any, is contingent upon highly uncertain events such as widespread bank failure, defaults of borrowers, accelerated death rates or war. Potential losses are further dependent upon the value of assets presently held as reserves against the contingency, the value of contingent assets which might be acquired, and future revenues generated by the existence of the contingency. Substantial losses can be predicated only on the basis of an abnormal course of events.

Item 7, actuarially calculated unfunded liabilities of annuity and pension systems may be generally defined as the present value of future benefits, less the present value of future normal contributions, less the existing fund. The following table, as provided by the Treasury and printed in the Congressional Record of September 17, 1965 represents the most recently calculated actuarial deficits of the various systems and is relatively complete with the exception of data for veterans' benefit programs. The note to the table is extremely important, particularly regarding the assumption of no new entrants to the system, as qualification of the implication that the Federal Government will have to finance the actuarial deficits from general fund revenues. For example, the social security trust fund is expected to be self-sustaining since employer and employee payments into the fund plus interest earnings on invested funds will be sufficient to pay benefits throughout the years.

Annuity and pension systems of the Federal Government

Title	Most recent actuarial valuation	Valuation interest rate	Actuarial deficit	Supported by cash projection (yes or no)
Federal civilian employees retirement systems:				
Civil service	June 30, 1963	3.5	\$34,060	No.
Foreign Service	Dec. 31, 1962	4.0	203	Yes.
Retirement system of the Tennessee Valley Authority.	June 30, 1964	3.5	39	No.
Federal judiciary	(1)			
Judiciary of territories	(1)			
Judiciary of District of Columbia	(1)			
Judicial survivors annuity fund	Dec. 31, 1961	3.0	13	Yes.
Judiciary of Tax Court	(1)			
Tax Court judges survivors annuity fund	(1)			
Social security:				
Old-age, survivors, and disability insurance system	Jan. 1, 1962	3.0	\$321,000	Yes.
Railroad retirement system	Dec. 31, 1962	3.0	4,244	No.
Uniformed services retirement systems:				
Retired pay, Defense	July 1, 1963 ²	3.0	55,200	No.
Retired pay, U.S. Coast Guard (includes lighthouse and lifesaving services)	June 30, 1963 ²	3.0	744	No.
Retired pay of commissioned officers, Coast and Geodetic Survey.	(1)			
Veterans benefit programs:				
Veterans compensation program (service-connected disability or death).	(1)			
Veterans pension program (non-service-connected disability or death or for service).	(1)			
Servicemen's indemnity program	(1)			
Miscellaneous:				
District of Columbia teachers' retirement system	June 30, 1961	3.0	101	Yes.
Policemen and firemen's retirement and disability, District of Columbia.	Dec. 31, 1952	3.0	92	No.
Annuities under special acts:				
Panama Canal construction workers	June 30, 1953	3.0	17	No.
Widows of former employees of the Lighthouse Service.	(1)			
Federal Employees' Compensation Act	(1)			
Board of Governors plan of the Federal Reserve banks retirement system.	Feb. 28, 1963	3.0	None	No.

¹ Not available.

² Not a formal actuarial study; based on estimates.

NOTE.—This table was compiled from the latest available actuaries' statements or other official sources. By nature, the concept of an actuarial deficit (often called unfunded liability) rests on broad assumptions which are subject to wide variation. Besides the interest rate assumption, 2 of the most common are the assumption that general salary scales will remain constant, and the assumption that there will be no change in existing benefit provisions. It cannot be said that the bases for the various components of the tables are entirely uniform.

There are 2 different concepts of actuarial deficit as used by the actuaries in their development of the data. All systems listed except the old-age, survivors, and disability insurance and the railroad retirement use a concept based primarily on the accrual of benefits for past services, disregarding the provision, or lack of provision, for financing future contributions to the fund. In the computation of the deficit for OASDI and RR the concept which is used is based on past service benefit accruals, plus future service benefit accruals to the extent not covered by existing financing provisions. Both concepts are defined in terms of the existing covered group, assuming no new entrants to the respective systems. The validity of this latter assumption as a basis for expressing actuarial status, particularly for the national compulsory social insurance system, has been seriously questioned as being "artificial and unrealistic," and as a result the unfunded liability for OASDI "is not significant from a long-range financing standpoint." (See Robert Myers: "Actuarially, We're in Balance," OASIS: June 1963.) In their 23d annual report dated Feb. 28, 1963, for OASI and DI trust funds, the Board of Trustees stated "that the system as a whole remains in close actuarial balance."

A general definition of an actuarial deficit may be stated as the present value of future benefits, less the present value of future normal contributions, less the existing fund. For example, the civil service retire-

ment concept differs from the OASDI concept only insofar as they use different assumptions for the flow of future contributions for the closed group. The civil service retirement system computation is based on "normal contributions" which roughly approximate the amounts that would have to be paid into the fund each year to cover the benefits accruing from that year's service (whether or not the contributions are likely to be made is not a consideration in the computation of the actuarial deficit as of any given date, but if the normal contributions are not made, the deficit continues to increase—other things being equal). The OASDI computation, on the other hand, is based on scheduled contributions under existing law, or, in other words, estimated future contributions by the existing group or covered employees and employers at the rates presently prescribed by law.

Any attempt to add these seven items together to arrive at a figure purporting to represent the Government's debt would be completely unwarranted. Not only would such a computation involve addition of unlike items; it would involve doublecounting such as through adding public debt liabilities to contingencies against which these same public debt items are held as reserves available to cover losses.

EXECUTIVE RESPONSIBILITY FOR PREPARING THE BUDGET

Mr. FLOOD. Without going into detail this late in the afternoon, let me invite you, Mr. Director, to read the record on what you should have said. This morning you used the phrase, in reply to one of the questions, you said you wanted to assure us that there was nothing sinister in a Machiavellian sense about your approach to this budget and the reductions suggested. This could very well be, but I look around this table and see several agricultural votes. Look around the table, to those who got through the heavy snow this morning and got here. You, perhaps, could not possibly have picked five more important areas of the agricultural bill which offends the souls of the men here than the five you did. You gave the reasons, but that concerns me about the position of the Bureau of the Budget, vis-a-vis the House of Representatives.

Someone reading this record might get the impression, because you are on the other side of that table, that you are on one team and we are on another. What about that?

Mr. SCHULTZE. I don't really want to respond to that because it indicates in some sense I do not belong to you, but let me make one point which I think is relevant in this. Of course, this goes back, I believe, to the Budget and Accounting Act of 1921—

Mr. FLOOD. That is exactly where it goes.

Mr. SCHULTZE (continuing). And to concepts developed even earlier, that the President proposes to the Congress an executive budget. The Bureau of the Budget compiles and puts together his recommendations to the Congress.

Clearly the Congress then acts on this, as the Congress sees fit. I would suspect that on perhaps 90 percent of the matters involved there is a mutuality of interest in the sense that 90 percent of the budget does not raise much question. It is the hard, tough, remaining 10 percent that causes most of the controversy.

Mr. FLOOD. Therein hangs the tale, of course.

Mr. SCHULTZE. This means, therefore, that on the 90 percent we do belong to you. On the 10 percent there are bound to be differences between the executive and the legislative.

Mr. FLOOD. The thing that impressed me and brought this to my mind more than anything is when the Secretary indicated the trend, the philosophy back of this new movement, last year's budget compared to this year's budget and for obvious reasons.

This won't touch the Secretary but it puts you right in the way of people who should not have that kind of a shot at you.

Mr. SCHULTZE. I am not precisely sure how to respond to that, but I would like to volunteer one point.

Mr. FLOOD. Go ahead.

Mr. SCHULTZE. I simply want to reemphasize what I said this morning. Let me say in all sincerity that this budget was not put together in terms of a game, to use someone's words, between the executive and the legislative. We took into account our best judgment on program priorities.

Admittedly, a number of members on this committee feel differently.

Mr. FLOOD. Off the record.

(Discussion held off the record.)

AID TO STATES AND MUNICIPALITIES

Mr. MAHON. Mr. Patten?

Mr. PATTEN. There was some discussion at the Governor's conference of helping the States and municipalities with some fresh money.

I take it that nothing is involved about that any place in the President's message or in your presentation, and you don't want anything more on that proposal?

Secretary FOWLER. I would only say, sir, that in discussions the other day before the House Ways and Means Committee I was asked my views about several proposals involving tax reductions.

I commented that—given the problems we face this year—any proposal that had the effect of significantly reducing revenues seemed to me to be out of the question until after the Vietnam situation is settled. Therefore, this Secretary of the Treasury would be strongly opposed at this time to anything of that nature.

The proposal to which you have reference would have the effect of reducing net Federal revenues since it involves the sharing of revenues by the States. Therefore, I do not think it is feasible to consider it under this budget.

Mr. PATTEN. Thank you, Mr. Chairman.

Mr. MAHON. Mr. Langen?

INTEREST RATES

Mr. LANGEN. Mr. Chairman, it would seem the field has been pretty well covered and we are running out of time so I shall try to hurry through this. Ordinarily I would be tempted to pursue the agricultural budget a little further but, frankly, Mr. Whitten and my colleague Mr. Flood have handled that subject so well perhaps we can leave it right where it is and pursue it further at the time of committee hearings.

I was particularly pleased that we finally got to the point of discussing interest rates. I merely want to add briefly to that one item or two that I hope you may include in your answer.

First of all I have noted recently in the press that there now seems to have developed some need for increasing the interest rates on the E- and H-bonds.

I would like some answer as to what the factors are which create this need.

Secondly, as we have noted, the interest rates necessarily having to be raised. What effect is the increased interest rate going to have on the public in general who has to borrow money?

Also, to what extent are the coupon clippers, as they have been referred to in many instances, going to benefit from the increased income by virtue of the interest rates having gone up?

I think these become pertinent, particularly in view of the fact that the budget also is making additional demands on private capital with which to satisfy the various items in this budget. Can they be included in those answers?

Secretary FOWLER. Yes, sir.

(The following material was submitted by the Treasury Department:)

The basic reasons for the higher rate on U.S. savings bonds are to sustain continued noninflationary growth in our economy and to manage the public debt in as sound a manner as possible. It is hoped that savings bonds will continue to help in meeting our current financing requirements, particularly for our commitments in Vietnam.

There is now a need to bring about a broad increase in savings to hold demand for goods and services within the limits of our human and industrial capacity. Excessive spending would inevitably result in increased prices to bring supply into balance with demand. More generally, over the long term, the savings bonds program has been and should continue to be an important factor in the encouragement of thrift.

From a debt management point of view savings bonds have served a most useful purpose since World War II in reducing the need for market borrowing. In view of the present high rates on outstanding issues in the market, the Treasury would pay a higher rate than 4.15 percent on refunding and new borrowing in the market. Thus, any appreciable expansion of savings bond sales at the new 4.15-percent maturity rate would represent a clear interest saving to the Treasury.

Until the recent rate change, the savings bond program had shown some adverse effects from competition with other forms of savings, although on the whole the program held up remarkably well. Total redemptions tended to run ahead of sales, causing a rising drain of Treasury cash. The current value of savings bonds outstanding continued to grow, however, because the accruals of interest on series E bonds were greater than the cash drain. The principal support in the savings bonds program has come from smaller denomination sales, mainly through the payroll savings plan. With about 8 million employees participating in payroll savings now, it is of the utmost important to maintain the momentum of this part of the program.

With many private financial institutions around the country paying higher rates for savings, the old $3\frac{3}{4}$ -percent rate on savings bonds was no longer sufficiently attractive. In the past, the savings bond rate has stood in reasonably close relationship to rates on other savings media, not seeking necessarily to match the highest rates available on any other savings form, but providing a return—in conjunction with the other advantages of U.S. savings bonds—that make this a highly desirable and attractive form of savings. In addition, the Treasury has a certain measure of responsibility to millions of Americans buying bonds either on the payroll savings plan or through other channels. Many of these individuals are not sophisticated followers of interest rate trends and rely on their Government to provide an equitable return on their savings.

THE IMPACT OF HIGHER INTEREST RATES ON BORROWERS AND LENDERS

Without doubt, at current interest rate levels, borrowers will have to pay more to obtain new credit (or replace maturing credits), while lenders will receive more interest income per dollar of new loans. With markets still in a state of flux reflecting upward adjustments in basic interest rates and subsequent adjustments in other rates—which in turn become reflected in further pressures on the basic rates themselves—no meaningful quantitative estimates of the dollar volume impact of greater interest costs and receipts can be made at this point.

Some of the typical interest rate changes that have developed in the past few months are indicated in another insertion to this record (see insertion for p. 202). In some cases, of course, borrowers may decide not to pay the higher rates now prevalent. They may choose to postpone certain purchases or projects, or effect further economies in the holding of cash balances.

It should be pointed out also that interest rate increases spread only quite slowly into some parts of the economy (for example, consumer installment loans), and that rate increases do not apply to the vast bulk of existing credits outstanding, but rather to new credits or renewals. The rate adjustments now being made on outstanding U.S. savings bonds are an exception to this, necessitated because savings bonds are essentially payable on demand; were the adjustment not made, many holders of existing savings bonds would turn them in and buy higher yielding savings bonds or perhaps go into some other type of investment altogether.

As for the impact of higher interest rates on the lenders or investors, it might be noted first that there is no significant distinguishable "rentier" class of "coupon clippers" in our economy. Most interest income goes to institutions or individuals who are both borrowers and investors to some degree. Of course, for some individuals the balance may be distinctly on one side or the other, but our economic information is not sufficiently refined to sort out the differential effects with any precision.

PROPOSED SUPPLEMENTALS FOR FISCAL YEAR 1966

Mr. LANGEN. One further subject and I shall be through. I am still a little curious about the supplemental appropriation required during this fiscal year. As I understand it, it is in excess of \$15 billion. Is that correct?

Mr. SCHULTZE. That is correct.

Mr. LANGEN. And \$14 billion is new obligational authority credited to the 1966 fiscal year budget for Vietnam purposes.

Correct me if I am wrong when I indicate that out of that amount \$4.7 billion will become expenditures during this fiscal year.

Mr. SCHULTZE. That is right; however, not all of the \$14 billion in new authority for Vietnam is in the \$15.8 supplemental total, since \$1.7 billion has already been enacted.

Mr. LANGEN. And about \$10.5 will become expenditures in the 1967 budget. Is that correct?

Mr. SCHULTZE. Not quite, but almost. The \$10.5 represents expenditures both out of the supplementals this year and out of the appropriations requested for 1967.

Mr. LANGEN. However, does it include the \$9 billion of new obligational authority for 1967?

Mr. SCHULTZE. The \$10.5 billion does include that portion of the \$9 billion which will be spent in the same year. Some portions of that \$9 billion requested in 1967 will not be spent in 1967, but will be spent in later years.

Mr. LANGEN. Putting the two together, the supplemental appropriations for this year and the new obligational authority for next year, does that indicate a total of some \$24 billion of new obligational authority?

Mr. SCHULTZE. The total new obligational authority for Vietnam, taking both years into account, comes to \$23 billion plus a little bit, so you are very close to being accurate on it.

GOVERNMENT EXPENDITURES IN THE GNP

Mr. LANGEN. Now, then, knowing that, and I was surprised to hear the Secretary say this morning that he had no knowledge of the extent to which these expenditures would affect the gross national product—it is hard for me to understand an indicated \$10 billion expenditure in fiscal 1967, which it has been indicated is for the procurement of

planes, ground equipment, and supplies to carry on the effort in Vietnam, is not going to affect the Gross National Product.

Secretary FOWLER. I am sorry you misunderstood me. What I adverted to was the fact that the increases in the administrative budget were not in my judgment a substantial contributing factor to the increased gross national product that occurred during 1964 and 1965. I think the increased GNP for those years was largely responsive to the developments in the private sector, and that the increase in Government budgetary expenditures were a very minor item. Fiscal 1964 expenditures were cut below the original estimates and fiscal 1965 spending was actually reduced below the level of 1964.

However, there is no doubt but that you are right, in saying that the expenditures for Vietnam will add to GNP growth. Moreover, as I said earlier, I believe our estimate of gross national product of \$722 billion is a very reasonable one.

Mr. LANGEN. The reason I raise the point is this: If we look back to the experience in Korea or World War II, we find in both instances there are substantial increases in the gross national product because of those activities.

Secretary FOWLER. There is no question about that.

POSSIBILITY OF A BALANCED BUDGET

Mr. LANGEN. Then in view of that I find it difficult to understand how you can predict so definitely that the budget would show a surplus of \$3.9 billion if it were not for the expenditures in Vietnam.

Secretary FOWLER. Because of the—

Mr. LANGEN. Because in arriving at that you have given credit to Vietnam expenditures in one instance but you have given no credit to those expenditures in the other instance, namely, the gross national product.

Secretary FOWLER. That involves a judgment as to how the resources devoted to Vietnam would have been utilized in the absence of that need. Would they have been lying fallow or would they have been utilized in very substantial part by the private sector in other ways? My comment had to do with the fact that the general strength and health of the economy during 1965 gave promise that a large portion of the resources that will be committed to Vietnam—manpower, materials, and industrial capacity—would in the absence of Vietnam have found a responsive outlet in the general private market.

Mr. LANGEN. That does not answer the question. The fact still remains that we are increasing the draft, 40,000 taken in 1 month, to where it is actually creating employment problems in many areas, including mine, farm labor particularly, and by the same token those expenditures, as you admitted a moment or two ago, do have a relationship to our economy.

I merely raise the question of how you can be so positive that the surplus would have been \$3.9 billion if there had been no conflict in Vietnam.

Secretary FOWLER. As our exchange has indicated, that comment assumes that there would be continued growth in the economy at something comparable to the rate that has characterized the economy's growth in 1964 and 1965.

If we would have had a recession or sharp leveling off or drop in the level of activity in 1966, my projected upward growth of the economy would have faltered and I would have been wrong.

Mr. LANGEN. That is all, Mr. Chairman.

Mr. MAHON. Mr. Davis?

Mr. DAVIS. I want to pursue this a step further. You are standing by this statement that we would have had a balanced budget, then, in spite of the fact that last year's budget contained not one dime earmarked for Vietnam and we did not have a balanced budget?

Secretary FOWLER. I am saying that by taking into consideration the growth pattern which has characterized this economy in 1964 and into consideration passage of the Revenue Act of 1964, and by taking into consideration the tone and character of the economy, many objective observers would have projected a very substantial increase in gross national product in calendar 1966 over calendar 1965, regardless of whether or not there were additional expenditures for Vietnam.

In any event, it is my own conviction that the growth of the economy would have provided revenues in excess of \$102 billion—and that is the point at which the budget would have come into a balance or a surplus.

UNSPENT CARRYOVER BALANCES

Mr. DAVIS. On page 7 of the "Budget in Brief" for fiscal 1967, there is listed a tabulation of Federal receipts from and payments to the public. Both under receipts and payments there is an item of intragovernmental transactions and other adjustments. Could we have a breakdown of both of those inserted in the record?

Mr. SCHULTZE. Yes, sir.

(The information supplied for the record follows:)

TABLE 1

[Fiscal years, in millions of dollars]

	1965 actual	1966 estimate	1967 estimate
FEDERAL RECEIPTS			
Intragovernmental transactions (see table 2 below)	4,303	4,484	5,500
Receipts from the exercise of monetary authority	117	901	1,568
Total intragovernmental transactions and other receipt adjustments	4,420	5,385	7,068
FEDERAL PAYMENTS			
Intragovernmental transactions (see table 2 below)	4,303	4,484	5,500
Debt issuance in lieu of checks (see table 3 below)	250	574	289
Increase (+) or decrease (-) in outstanding checks, etc.	-804	107	-108
Total intragovernmental and other payment adjustments	3,749	5,165	5,681

TABLE 2.—INTRAGOVERNMENTAL TRANSACTIONS

The total of administrative budget receipts includes amounts paid into the Treasury by trust funds, amounts which are also included in the total of trust fund expenditures. Similarly, there are trust fund receipts which are administrative budget expenditures. (There are also some minor expenditures of Government-sponsored enterprises which are administrative budget receipts.) In consolidating the transactions of budget funds, trust funds, and Government-sponsored enterprises, the intragovernmental transactions are subtracted from

the combined receipts and expenditures since no exchange of cash with the public is involved in these transactions.

Intragovernmental transactions excluded from the consolidated cash totals

[Fiscal years, in millions of dollars]

Description	1965 actual	1966 estimate	1967 estimate
ADMINISTRATIVE BUDGET RECEIPTS WHICH ARE TRUST FUND EXPENDITURES			
Franchise taxes from Government-sponsored enterprises:			
Banks for cooperatives.....	2	1	1
Federal intermediate credit banks.....	3	3	3
Dividends, interest, and corporate income tax equivalent:			
Federal National Mortgage Association, secondary market operations.....	17	16	22
Reimbursement for expenses and services:			
District of Columbia.....	6	6	6
Federal disability insurance trust fund.....	4	5	5
Federal old-age and survivors insurance trust fund.....	50	44	52
Unemployment trust fund.....	6	7	7
Settlement of international claims.....	1	8	2
Federal hospital insurance trust fund.....		4	5
Federal supplementary medical insurance trust fund.....			(*)
Repayment of advances: Unemployment trust fund.....	106	21	2
Total, administrative budget receipt items.....	194	114	105
TRUST FUND RECEIPTS WHICH ARE ADMINISTRATIVE BUDGET EXPENDITURES			
Interest on trust funds:			
Federal disability insurance trust funds.....	65	57	57
Federal employees' retirement funds.....	484	541	601
Federal old-age and survivors insurance trust fund.....	583	556	590
Highway trust fund.....	11	5	3
Judicial survivors annuity fund.....	(1)	(1)	(1)
Railroad retirement account.....	143	148	154
Unemployment trust fund.....	255	268	280
Uninvested trust funds.....	11	12	13
Veterans life insurance funds.....	216	224	226
Federal hospital insurance trust funds.....		9	40
Federal supplementary medical trust funds.....			4
Other trust funds.....	1	1	2
Subtotal, interest on trust funds.....	1,770	1,822	1,970
Contributions for military service credits:			
Federal disability insurance trust fund.....		16	16
Federal old-age and survivors insurance trust fund.....		78	78
Railroad retirement account.....	14	17	17
Federal hospital insurance trust fund.....		11	11
Subtotal, contributions for military service credits.....	14	122	122
Other payments to trust funds:			
Payments to District of Columbia:			
Federal payments and loans.....	60	64	111
Grants-in-aid.....	42	37	41
Employing agencies' payments to Federal employees' retirement funds:			
Civil service retirement and disability fund ²	1,107	1,132	1,146
Foreign Service retirement and disability fund.....	4	4	4
Payments to Indian tribal funds.....	58	86	85
Advances to Federal supplementary medical insurance trust fund.....			550
Advances to Federal hospital trust fund.....		26	283
Contributions to veterans life insurance funds.....	7	7	6
Other.....	1	1	1
Subtotal, other payments to trust funds.....	1,278	1,357	2,226
Total, trust fund receipts which are administrative budget expenditures.....	3,063	3,301	4,318
Deductions from employees' salaries for retirement ³	1,046	1,069	1,077
Total, intragovernmental transactions.....	4,303	4,484	5,500

¹ Less than \$500,000.

² Includes relatively small amounts of payments by Government-sponsored enterprises and trust funds (other than the District of Columbia).

³ Includes relatively small amounts of deductions from salaries paid by Government-sponsored enterprises and trust funds (other than the District of Columbia).

TABLE 3.—DEBT ISSUANCE IN LIEU OF CHECKS

In a few cases, administrative budget expenditures are recorded when the Government issues bonds or notes, in lieu of issuing checks, or when the value of such bonds outstanding increases. Such transactions do not involve cash transfers until the debt instrument is redeemed.

For example, the administrative budget records interest on savings bonds when it accrues (and is added to the redemption value currently payable) rather than when it is actually paid. In computing cash payments to the public, interest payments are included only when the actual transfer of cash takes place. Therefore, an adjustment is made for the difference between the amount of interest accrued and the amount paid.

A second example involves transactions in special notes used to pay certain U.S. Government obligations. The Government has paid a portion of its subscriptions to the International Monetary Fund, the International Development Association, and the Inter-American Development Bank in non-interest-bearing notes. The notes are considered administrative budget expenditures and become part of the public debt when they are issued. However, they are not counted as a payment to the public until they are redeemed for cash, at which time they cease to be part of the public debt. Conversely, when the institutions return cash to the Treasury in exchange for notes, payments to the public are reduced by the amount of the cash receipts and a corresponding increase in the public debt takes place.

Debt issuance in lieu of checks

[Fiscal years, in millions of dollars]

Description	1965 actual	1966 estimate	1967 estimate
Accrued interest added to value of debt (savings bond, etc.), net.....	716	711	448
Treasury notes issued for:			
International Monetary Fund.....	-472		
International Development Association.....	-4	-95	-43
Inter-American Development Bank.....			-75
United Nations funds securities.....	11	-41	-40
Armed Forces leave bonds issued ¹	-1	-1	-1
Adjusted-service bonds issued.....	(²)	(²)	(²)
Excess profits tax refund bonds issued ³	(²)	(²)	(²)
Total, debt issuance in lieu of checks.....	250	574	289

¹ Negative figures represent net redemption.² Less than \$500,000.³ Reported as refunds of receipts.

Mr. DAVIS. On page 63 of that same document is a chart entitled "Relation of Authorizations to Expenditures," a very revealing chart. I would like to have you explain that chart from the standpoint of one looking in from the outside. According to that chart, it would appear that at the end of this fiscal year there will be unspent authorizations for expenditures of approximately, in round numbers, \$20 billion more than was shown in a similar chart 1 year ago. This would compare with approximately \$20 billion in obligational authority which has been given or is anticipated will be given during this current fiscal year. That would cast a shadow or at least raise the question as to whether this is not simply getting authority to spend money that will not be used and simply having it pile up another \$20 billion over which Congress has lost control of expenditures in the fiscal year after 1967.

Is there an explanation that would negate that intimation?

Mr. SCHULTZE. If I may talk to that for just a moment, there is admittedly no simple explanation of the relationship between unspent balances and future expenditures. The reason is that the largest portion of the unspent balances are already obligated and are largely for

the purchase of long leadtime items. Hence, spending may occur out of those unspent balances in the next year, the second succeeding year, the third succeeding year and in some cases as much as 4 or 5 years later. Take the case of an appropriation for a nuclear carrier. The actual expenditures for the construction of that carrier will extend over many years. The year you add that to your appropriations you have an immediate \$400-some-odd-million increment. What I am saying is that the increase in unexpended balances is heavily influenced by the fact that a large proportion, although by no means all of these balances, are going to defense for sizable long leadtime items.

It is true, of course, that these balances in most cases are available for future spending. However, there are some \$13 billion of them which will probably never be spent. They are contingency standby's for use only under very extreme conditions.

So, your statement of the facts is correct—the unexpended balances do rise substantially. But the implications of this for future spending can't be immediately gotten from these numbers because the future spending in many cases will be spread over a number of years, not just 1 year.

Mr. DAVIS. You say it is a pure coincidence that the unexpended authorization for expenditures at the end of the next fiscal year will have jumped by almost the same amount in round numbers as the supplemental appropriations of the current fiscal year?

Mr. SCHULTZE. That is a pure coincidence.

Mr. DAVIS. When you used the term, Mr. Schultze, earlier, that the President or I suspect in practical terms, the Bureau of the Budget, cut the requests of the various administrative agencies by \$20 billion, were you referring to \$20 billion reductions in proposed appropriations or obligational authority? In other words, the figures that are sent up here for this committee to take a look at?

Mr. SCHULTZE. It is my recollection it is about \$22 to \$23 billion in appropriations and \$20 billion in terms of expenditures.

RELATION OF EXPENDITURES TO APPROPRIATIONS

Mr. DAVIS. That gets us to the question that I would like to ask both you and the Secretary to direct yourselves to. The Chairman, Mr. Mahon, mentioned it in the early minutes of this hearing this morning.

I think there is a general impression that where a budget is shown to be out of balance by less than \$2 billion that our constituents have a right to ask us, "Why don't you cut the budget \$2 billion?" Obviously from our discussion here today, this would give no assurance whatsoever of a balance budget. How can Congress take any steps that are going to assert its will with respect to a balanced budget under the present operations?

Mr. SCHULTZE. Let me first say simply that on the technical side, you are quite correct. In any given single year for the Congress to reduce expenditures by \$1 billion will normally require a cut in appropriations by some amount larger than \$1 billion. It obviously depends on where you cut as to how fast the expenditure impact will be.

If you cut out the nuclear carrier, you will affect 1968, 1969, 1970, and 1971 spending. If you cut out personnel, you affect it immediately. If you cut back on certain assistance programs designated by

law, you won't affect anything because practically speaking we will have to ask you to restore the funds. That is point No. 1.

Point No. 2 is that when the President sent this budget to Congress, he felt that the appropriation request and the spending therein were necessary for the country's safety, well-being, prosperity, and the like.

I think I would just leave it there.

Secretary FOWLER. I don't have anything to add.

Mr. DAVIS. Do you have any suggestions?

Secretary FOWLER. No.

Mr. DAVIS. I have no further questions.

Secretary FOWLER. As I said this morning, Mr. Davis, if you add to expenditures, I would very much appreciate it if you would also add other sources of revenue.

Mr. MAHON. Mr. Robison.

SPECULATION AS TO TAX INCREASES

Mr. ROBISON. I will be very brief.

Mr. Secretary, on page 8 of your prepared statement you review the tax recommendations the President has made that are now pending in the Ways and Means Committee. You referred to them as one-shot affairs producing revenue increases good for only 1 or 2 years. You say this is the intent. Then you add a sentence:

If an abatement of Vietnam activities becomes possible, we will not have made any major change in our tax structure.

Am I to understand that that language, "an abatement of Vietnam activities," refers to the period of this budget, fiscal 1967?

Secretary FOWLER. Well, not necessarily. It includes that period but it might include a period beyond that.

Mr. ROBISON. Let me phrase it this way: Is it the President's objective to avoid any additional tax increases during fiscal 1967, provided there is no further escalation of the costs in Vietnam; or secondly, provided no unforeseen additional inflationary pressures develop?

Secretary FOWLER. To be precise, let me refer to the statement made in the budget message. On page 10, the President stated:

If on the other hand, events in southeast Asia so develop that additional funds are required, I will not hesitate to request the necessary sums. And should that contingency arise, or should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability.

That includes, of course, tax increases as such.

Mr. ROBISON. In looking ahead, then, to this coming fiscal year, we in Congress cannot rule out the possibility that during that fiscal year period we may be faced with further Presidential recommendations in the fiscal field, including recommendations for increasing taxes?

Secretary FOWLER. You certainly cannot rule that out if either of the contingencies referred to in his message should develop.

Mr. ROBISON. That is all.

AGRICULTURE BUDGET REDUCTION

Mr. ANDREWS of North Dakota. Mr. Chairman, I would like to ask a couple of questions following along the line of Mr. Whitten's ques-

tions. I share his concern about the seemingly strange prejudice you have against agriculture in your budget. Could you cite for the record the percentage cut that you made in this budget in the various administrative agencies? In other words, what percentage did agriculture get cut and what percentage did the others get?

Mr. SCHULTZE. Yes, sir.

(The following was submitted for the record:)

The total of new obligational authority requested in the 1967 budget for the Department of Agriculture represents a reduction of 4.8 percent from totals requested by the Department. The reduction for all other civilian agencies averaged 13.5 percent. If we exclude CCC, the reductions in the Department of Agriculture's request amounted to 11½ percent—compared to the 13½-percent reduction in all other civilian agencies.

FOOD-FOR-PEACE FUNDS

Mr. ANDREWS of North Dakota. You mentioned that you were going to cut the food-for-peace program by \$200 million.

Mr. SCHULTZE. If I used the word "cut" that is an unfortunate implication. There is a reduction in the expenditures on account of the food-for-peace program. This does not reflect a program cut but the impact on food-for-peace expenditures of the 1965 agriculture bill, which tends to reduce market prices and in some cases to substitute increased direct payments. This reduces the cost of the food-for-peace program.

Mr. ANDREWS of North Dakota. This is what I would like to get to. You said you were going to cut the budgetary amount allowable for the food-for-peace program by \$200 million, is that not correct?

Mr. SCHULTZE. If I used the term "cut" that is an unfortunate choice of term.

Mr. ANDREWS of North Dakota. You were going to cut the dollars that you were going to put into the food-for-peace program?

Mr. SCHULTZE. We are increasing the shipments of food under the program.

Mr. ANDREWS of North Dakota. Along that line, how can you do this, because Secretary Freeman said not over a month ago that the price of wheat this year was higher than it was a year ago. Because it was higher than a year ago negates your statement. The Secretary of Agriculture is selling out of CCC inventories wheat sufficient to drive the price down to where it was a year ago. You cannot have it both ways?

Mr. SCHULTZE. No, sir; I would prefer to get the specific price and other information involved into the record with a statement.

Mr. ANDREWS of North Dakota. Your feeling is that you could sustain the \$200 million cut because the price of wheat is lower today than it was a year ago because of the impact of this program?

Mr. SCHULTZE. No, the price of wheat as reflected in the 1967 budget and the 1965 law would be lower than in the fiscal 1966 period.

Mr. ANDREWS of North Dakota. Your statement was—

Mr. SCHULTZE. The price at which you could get wheat in the Public Law 480 program.

Mr. ANDREWS of North Dakota. Does this cut in the food-for-peace program represent a change in the administration attitude or did not this feeling get through to you because just a month ago I was with Secretary of Agriculture Freeman and Mr. Subramamiam, who

is the Secretary of Food and Agriculture in India, at which time we were told that the President specifically had ordered a doubling of our food-for-peace program for India, which is the major recipient of food for peace?

Mr. SCHULTZE. Again, as I pointed out, this budget does not reflect a reduced level but rather an increased level of shipments under the Public Law 480 program.

Mr. ANDREWS of North Dakota. But a reduced level of spending for the shipments?

Mr. SCHULTZE. Correct.

Mr. ANDREWS of North Dakota. You say a reduced level of spending because of the lower price of wheat?

Mr. SCHULTZE. The prices at which CCC can pick wheat up and at which the food-for-peace program can pick it up are lower in the 1967 budget than in the 1966 budget.

Mr. ANDREWS of North Dakota. This just does not square with what Mr. Freeman said in our area. I would like to have an explanation as to how one branch of the Government says wheat sells for less and another says wheat is selling for more so we have to lower the price.

Mr. SCHULTZE. I will provide that. I regret that I cannot provide it now but I will provide it.

(The following information was submitted for the record:)

Food-for-peace shipments in 1967 will be at a higher level than in 1966 although total expenditures will be less. The lower expenditures are due primarily to lower unit costs.

CCC is authorized to be reimbursed for its investment in the commodities shipped under Public Law 480. Since a large portion of the commodities shipped under Public Law 480 are purchased in the market, CCC's investment is directly related to market prices.

Wheat shipments comprise the major portion of the food-for-peace program. Under the new wheat program, authorized in the Food and Agriculture Act of 1965, producers will receive a higher price for their share of the domestic market for wheat and a lower price for their export share. Following is a comparison of these prices:

[Dollars per bushel]

	1965 crop (fiscal year 1966)	1966 crop (fiscal year 1967)
Loan rate (roughly the market price).....	1.25	1.25
Domestic marketing certificate.....	.75	1.30
Export marketing certificate.....	.30	-----
Domestic price (loan rate plus domestic marketing certificate).....	2.00	2.55
Export price (loan rate plus export marketing certificate, if any).....	1.55	1.25

In the fiscal year 1966 the price for export wheat is the loan rate (or roughly the market price) of \$1.25 plus the export certificate of \$0.30, or a total of \$1.55 per bushel. For 1967 it is estimated that the market price and the export price will be at about the loan level and export certificates will not be issued. Thus the price of wheat shipped under title I will be about 30 cents per bushel less in 1967 than in 1966, permitting a greater volume of shipments at a lower total cost.

Mr. ANDREWS of North Dakota. Thank you very much.

Mr. JONAS. Mr. Chairman, may I ask one other question?

Mr. MAHON. Sure.

CIVIL SERVICE RETIREMENT FUND DEFICIT

Mr. JONAS. Is there anything in this budget, any plan or provision, to take care of this increasing deficit in the civil service retirement fund which now is above \$40 billion?

Mr. SCHULTZE. Well, the best answer to that is that we do have the whole problem of civil service financing under consideration by an interdepartmental committee.

Mr. JONAS. That has been under study for several years. You are not proposing a remedy?

Mr. SCHULTZE. This particular committee started work last year and I believe—although I cannot say this for sure since we have not submitted our recommendations to the President—I believe we will be in a position to offer some remedy.

Mr. STAATS. We hope to have something in a matter of a few weeks.

Mr. JONAS. That will involve additional spending?

Mr. SCHULTZE. In all probability it will not involve additional spending because it will not change the outflow from the fund itself. It does involve the financing of the fund but I would prefer to defer discussion on the technical details until we have made a report to the President and he makes a recommendation.

BUDGET PROPOSAL TO REOPEN BACK-DOOR SPENDING FOR URBAN RENEWAL PROGRAM

Mr. JONAS. One other thing. Last year we undertook to close the back door, as we call it, on urban renewal by appropriating advance funding 2 years. Are you changing this? Are you recommending a change in that?

Mr. SCHULTZE. Basically what the budget does is to be neutral on this point. That is essentially what I would say.

Mr. JONAS. You've got money for the next year anyway, appropriated last year. If you are not proposing to go back to direct appropriations it would stay in status quo?

Mr. SCHULTZE. There is the need for advance funds to assure program continuity. Essentially the budget itself is neutral on how this is to be done.

Mr. MAHON. Mr. Passman?

Mr. PASSMAN. The civil service retirement program is handled somewhat like the retirement pay of military personnel. It comes out of current revenues. It requires about \$1.5 billion a year to pay the pensions of retired military personnel and about the same for the Government's share of the retirement pay for civil service personnel, and these funds come out of current revenues.

Mr. SCHULTZE. Correct. Now let me amend my response to Mr. Jonas.

What I said was technically correct, that the budget is neutral on this. The Housing Department will be able in 1968 to use for advance reservation the amounts already provided by existing legislative authority.

Mr. JONAS. My question is: In effect it will be using contract authority going back to what we call backdoor spending?

Mr. SCHULTZE. You are correct.

Mr. JONAS. I want you to take note of that.

Mr. MAHON. Why was this done?

Mr. SCHULTZE. We wished to remain neutral with respect to the desires of the legislative and Appropriations Committees. The essential thing is to have advance funding to assure program continuity. The Appropriations Committees specifically provided advance funding for 1967. The legislative committees acted to provide advance funding for 1968 as well as 1967. We did not believe that we should tell the Congress to reenact a provision and an amount it has already enacted to provide this advance funding. In either case, however, the budget totals would not change at all.

INFLATION AND BUDGET DEFICITS

Mr. MAHON. Mr. Secretary, from time to time during the day we have discussed with you or touched upon inflation and the possible inflationary effects of budget deficits, and so forth. I would like to make sure that the record contains certain specific information.

I must say that the recently released Economic Report of the President is very helpful in this regard. I wish you would give us a general discussion with some detail of this matter of inflation and budget deficit implications at this time. And have we not had some inflation going on for a long, long time, for example?

(The following material was submitted by the Treasury Department:)

The relationship between budgetary deficits and price movements is not a simple, direct one. The Government deficit is a "netting out" of Government expenditures and receipts. As a general rule, if there is a deficit it indicates that the Government is stimulating the economy by injecting more money into the income stream than it takes out. Conversely if there is a surplus, the economy is being restrained by the Government's draining off more money than is being spent. Whether inflation will result from either a surplus or a deficit depends on what is happening in the private sector of the economy at the time. If demand in the private sector is depressed, a sizable Federal deficit may be compatible with relative price stability, while if private demand is running strong, a budget surplus may accompany large price increases.

Table 1 shows calendar year Federal administrative budget surpluses and deficits and the rate at which the GNP price deflator rose during those years. If we omit 1948 and 1951, when price controls and the Korean war had special influences, we see that the largest price increases occurred in 1956 and 1957, two of the few years in which the Federal budget showed a surplus. On the other hand, the calendar year with the largest deficit, 1953, had the smallest post-Korean increase. (The same results hold if we take the Federal surplus/deficit on a national income accounts basis instead of looking at the administrative budget.)

The explanation behind the paradoxical results shown in table 1 lies, of course, in the varying strength of the private sector. In 1956 and 1957, for example, demand in the private sector of the economy was very high and as a result prices increased very rapidly even though the Government was taking more out of the economy (through taxes) than it was putting in (through expenditures). For the last few years, the private sector has been growing rapidly as the unemployment rate has dropped from 7 to 4 percent. The Federal deficits for these years have, however, been accompanied by below average price increases. If the economy had been operating nearer to full capacity, deficits of this magnitude might have led to more rapid price increases.

Thus we see that the Government's surplus/deficit position is only one of many factors to be considered in forecasting price movements. With a large amount of slack in the economy, large deficits do not necessarily imply price increases, while under circumstances of high utilization, these same deficits can mean inflation. It is just because the economy is so close to balance between

demand and productive capacity that we have proposed the present tax program for fiscal year 1967. An increased deficit might lead to rising prices, so a program of fiscal restraint is called for.

Budgetary deficits and inflation

Calendar year	Federal administrative budget surplus or deficit (-)	Percentage increase in the GNP price deflator	Calendar year	Federal administrative budget surplus or deficit (-)	Percentage increase in the GNP price deflator
	<i>Billions</i>			<i>Billions</i>	
1948.....	\$5.2	6.7	1957.....	\$0.6	3.7
1949.....	-3.6	-6	1958.....	-7.1	2.6
1950.....	-4	1.4	1959.....	-7.0	1.6
1951.....	-3.4	6.7	1960.....	2.0	1.7
1952.....	-5.8	2.2	1961.....	-6.3	1.3
1953.....	-9.2	.9	1962.....	-7.2	1.1
1954.....	-3.7	1.5	1963.....	-6.7	1.3
1955.....	-2.8	1.5	1964.....	-8.2	1.7
1956.....	3.8	3.4	1965.....	-4.7	1.8

TRIBUTE TO WILLIAM F. M'CANDLESS

Mr. MAHON. I want to make reference to Mr. William F. McCandless, until just recently Assistant Director for Budget Review, Bureau of the Budget. We were very gratified to note that the President, on January 24 on the occasion of signing the new budget, presented an award for distinguished civilian service to Mr. McCandless. He has retired from Federal service. He had worked for many years with members of the Committee on Appropriations and the staff. He was most courteous, most helpful, able and knowledgeable. We all wish for him the very best.

ADDITIONAL FINANCIAL TABLES

We would like for you, Mr. Secretary and Mr. Director, to provide in the course of revising and correcting your remarks, certain tables and other data that might bring better perspective and objectivity to the record which has been made here today in regard to the budget and related matters.

We had a number of such tables in last year's hearing on the overall budget. I will ask the staff to give some thought to asking you to update some of them, or perhaps to include others which may appear to be preferable.

(The following tables were submitted by the Treasury Department in response to committee staff requests:)

Estimated distribution of the interest on the public debt, calendar years 1941-65

[In billions of dollars]

Calendar years	Individuals			Commercial banks	Mutual savings banks	Insurance companies	Non-financial corporations	State and local governments	Miscellaneous investors	Federal Reserve banks	Government investment accounts	Total interest expenditures
	Savings bonds	Other securities	Total									
1941.....	0.1	0.1	0.2	0.4	0.1	0.2	(1)	(1)	(1)	(1)	0.2	1.1
1946.....	.8	.5	1.3	1.4	.3	.6						5.0
1947.....	.9	.5	1.4	1.3	.3	.6					.8	5.0
1948.....	1.1	.4	1.5	1.2	.3	.5					1.0	5.4
1949.....	1.2	.4	1.6	1.2	.3	.5					.8	5.3
1950.....	1.4	.3	1.7	1.2	.3	.5					1.0	5.6
1951.....	1.4	.3	1.8	1.3	.2	.4					1.2	6.0
1952.....	1.5	.3	1.8	1.3	.2	.4					1.2	6.1
1953.....	1.5	.3	1.8	1.3	.2	.4					1.3	6.4
1954.....	1.5	.4	1.9	1.3	.2	.4					1.3	6.6
1955.....	1.5	.3	1.8	1.4	.2	.4					1.3	6.6
1956.....	1.4	.5	1.9	1.4	.2	.3					1.4	7.0
1957.....	1.4	.4	1.8	1.5	.2	.3					1.5	7.6
1958.....	1.4	.4	1.8	1.6	.2	.3					1.5	7.4
1959.....	1.4	.6	2.0	1.8	.2	.3					1.5	8.4
1960.....	1.5	.8	2.3	1.8	.2	.3					1.5	9.3
1961.....	1.5	.6	2.1	1.9	.2	.3					1.1	8.9
1962.....	1.6	.7	2.3	2.1	.2	.3					1.0	9.6
1963.....	1.7	.6	2.3	2.2	.2	.3					1.1	10.2
1964.....	1.8	.7	2.5	2.2	.2	.3					1.1	11.0
1965.....	1.8	.8	2.6	2.2	.2	.4					1.5	11.6

¹ Less than \$50,000,000.

² Excludes \$225,000,000 of outstanding unpaid interest resulting from a change in the accounting basis from an "interest paid" to a "due and payable" basis.

³ Excludes \$279,000,000 resulting from a change in the accounting basis from a "due and payable" to an "accrual" basis.

NOTE.—Figures may not add to totals because of rounding.

U.S. balance of payments, 1960-65

[In millions of dollars]

	1960	1961	1962	1963	1964	1965
Exports.....	19,489	19,936	20,604	22,069	25,288	26,303
(Agricultural).....	(4,832)	(5,024)	(5,034)	(5,584)	(6,347)	-----
(Nonagricultural).....	(14,657)	(14,912)	(15,570)	(16,485)	(18,941)	-----
Imports.....	-14,732	-14,507	-16,173	-16,992	-18,619	-21,480
Trade surplus.....	4,757	5,429	4,431	5,077	6,669	4,823
Tourism:						
Payments.....	-2,237	-2,242	-2,460	-2,705	-2,851	-----
Receipts.....	981	995	991	1,052	1,245	-----
Net.....	-1,256	-1,247	-1,469	-1,653	-1,606	-----
Military:						
Payments.....	(-3,076)	(-3,000)	(-3,100)	(-2,951)	(-2,863)	-----
Receipts.....	(322)	(536)	(1,353)	(1,227)	(1,207)	-----
Net, DOD basis ¹	(-2,754)	(-2,465)	(-1,747)	(-1,724)	(-1,657)	-----
Net, Commerce basis ¹	-2,728	-2,555	-1,939	-1,949	-1,831	-----
Miscellaneous services and transfers (excluding direct investment income).....	252	530	821	792	979	-----
Government grants and capital (Dollar outflow).....	-3,380	-4,021	-4,280	-4,530	-4,267	-----
Other Government nonliquid liabilities.....	(-1,111)	(-1,139)	(-1,053)	(-834)	(-702)	-----
Government debt repayments.....	42	80	394	52	16	-----
Direct investment outflows from United States.....	610	1,249	1,254	962	695	-----
Direct investment income.....	-1,674	-1,599	-1,654	-1,976	-2,376	-----
Net.....	2,355	2,768	3,050	3,134	3,741	-----
New foreign securities.....	681	1,169	1,396	1,158	1,365	-----
Other security transactions.....	-555	-523	-1,076	-1,250	-1,063	-1,185
Bank claims.....	-108	-239	107	146	386	501
Nonbank claims.....	-1,150	-1,261	-451	-1,535	-2,465	92
Foreign capital.....	-398	-558	-351	159	-944	-----
Errors and omissions.....	340	622	157	302	429	-----
Overall (liquidity) balance.....	-988	-1,045	-1,197	-401	-1,161	-----
Official settlements balance.....	-3,881	-2,370	-2,203	-2,670	-2,798	-1,299
Official settlements balance.....	-3,592	-1,287	-2,241	-1,990	-1,256	-1,382

¹ Includes advance receipts from foreign governments. Excludes advances from Eximbank or the MAP credit fund on behalf of foreign governments.

Sources: 1960-64; Survey of Current Business, June 1965. For 1965, Commerce Department press release, Feb. 16, 1966.

U.S. balance of payments by major components¹ seasonally adjusted
[Millions of dollars]

	Calendar year 1964	1964			1965			
		I	II	III	IV	I ²	II ²	III ²
GOODS AND SERVICES, GOVERNMENT ASSISTANCE AND LONG-TERM CAPITAL ACCOUNTS⁴								
A. Nonmilitary merchandise exports	25,288	6,149	6,067	6,382	6,690	5,586	6,748	6,806
1. Less: Those financed by Government grants and capital	2,812	671	683	742	716	571	740	769
3. Merchandise exports, other than those financed by Government grants and capital	22,476	5,478	5,384	5,640	5,974	5,015	6,008	6,037
4. Nonmilitary merchandise imports	-18,619	-4,410	-4,590	-4,709	-4,901	-4,663	-5,469	-5,321
5. Balance on trade excluding exports financed by Government grants and capital	3,857	1,068	785	931	1,073	352	530	516
6. Nonmilitary service exports	10,967	2,741	2,733	2,785	2,708	2,905	3,115	3,019
7. Less: Those financed by Government grants and capital	585	144	155	143	143	188	174	123
8. Service exports other than those financed by Government grants and capital	10,382	2,597	2,578	2,642	2,565	2,717	2,941	2,887
9. Nonmilitary service imports	-7,014	-1,736	-1,742	-1,736	-1,800	-1,832	-1,926	-1,920
10. Balance on services other than those rendered under Government grants and capital	3,368	861	836	906	765	885	1,015	987
11. Balance	7,225	1,929	1,621	1,837	1,838	1,237	1,554	1,483
B. Other major transactions:								
1. Military expenditures	-2,824	-732	-720	-691	-681	-662	-702	-735
2. Military cash receipts ⁵	993	362	422	451	358	243	342	180
3. Government grants and capital—dollar payments to foreign countries and international institutions	-702	-135	-186	-183	-198	-182	-197	-200
4. Repayments on U.S. Government loans excluding fundings by new loans and repayments on military credits	576	184	176	166	50	148	162	343
5. U.S. direct and long-term portfolio investments abroad	-4,351	-738	-795	-1,163	-1,654	-1,838	-791	-871
6. Foreign direct and long-term portfolio investments in the United States	110	6	94	-72	82	281	-247	-240
7. Remittances and pensions	-209	-203	-207	-207	-220	-224	-200	-235
8. Net sales of nonmarketable medium-term, nonconvertible securities ⁶	-36	-55	-8	-2	29	-2	-2	(⁷)
9. Miscellaneous Government nonliquid liabilities	207	4	-1	204	(⁷)	1	6	5
10. Balance	-6,866	-1,313	-1,522	-1,797	-2,234	-2,233	-1,719	-1,763
C. Balance on goods and services, Government assistance and long-term capital accounts	359	616	99	40	-396	-996	-165	-280
D. Recorded U.S. private short-term capital outflow less foreign short-term credits to the United States (excluding foreign liquid dollar holdings)	-1,996	-585	-529	-642	-540	290	484	79
E. Unrecorded transactions	-1,161	-288	-152	-291	-430	-3	-77	-284
F. Balance C+D+E	-2,798	-297	-582	-693	-1,366	-709	242	-485

¹ Excludes military transfers under grants.

² Revised.

³ Preliminary.

⁴ Short-term capital movements between parent companies and their foreign affiliates are reported as part of direct investment.

⁵ See footnote 1 to table 4.

⁶ Includes Export-Import Bank Portfolio Fund Certificates of Participation.
⁷ Less than \$600,000.

Note.—For reconciliation of data on Government transactions shown in this table with those shown in tables 1 and 3, see table 4.

Source: Survey of Current Business, December 1965.

Mr. MAHON. Our problems are huge, complex, and in some respects very frustrating. We realize the picture is not rosy in some respects. There are many things that worry you and worry us and worry the citizens generally. Your presentations have contributed greatly to our understanding of the issues confronting us.

COMPLIMENTS TO SECRETARY AND DIRECTOR

Several compliments have been passed here on you gentlemen. Much is said about the difficulty of getting good men in the Government service. The pay is not as great as it is in industry but I think the rewards are greater. I think the country is fortunate to have men of the stature of Henry Fowler and Charley Schultze in these important positions of responsibility. It is very encouraging that we have men of your caliber in these jobs and I just want to wish you well in your undertaking.

It will be our responsibility and pleasure to cooperate with you. We will not always agree with you but we will profoundly respect you and we will feel confident that regardless of the turn of events we do have two excellent men in two very key positions who are supported by excellent staffs.

Secretary FOWLER. Thank you very much, Mr. Chairman.

Mr. SCHULTZE. May I add one closing comment. I want to indicate, at least from my own personal point of view, how useful I think your reinstatement of these hearings last year and your continuation of them this year has been. I obviously can't speak for the members of your committee but I know that as far as I am concerned I find preparation for them most useful and I hope the committee finds it useful to hear our presentations.

Mr. MAHON. Thank you very much. The committee stands adjourned.

REMARKS OF CHAIRMAN MAHON ON PRESIDENT'S BUDGET FOR 1967

(CLERK'S NOTE.—Following are the remarks of Chairman Mahon on the President's Budget for 1967, given in the House of Representatives on January 24, 1966:)

THE PRESIDENT'S BUDGET MESSAGE

The SPEAKER pro tempore. Under previous order of the House, the gentleman from Texas (Mr. Mahon), is recognized for 20 minutes.

(Mr. Mahon asked and was given permission to revise and extend his remarks.)

Mr. MAHON. Mr. Speaker, we have a Joint Committee on the Organization of Congress which is looking into the possibility of improving the operations of the Congress.

In reading some of the testimony before that joint committee, I find that a considerable point has been made to the effect that Congress does not get an opportunity to view the overall picture of Federal expenditures, Federal revenues, and the fiscal plan of the Government.

Whether or not there is great hungering for this understanding, I am not sure. I would hope that there is. Surely, there ought to be. But the relatively small attendance of Members here on the House floor to hear the President's budget message, in which he recommends appropriations of about \$121 billion for fiscal 1967, would indicate something less than a consuming interest. Be that as it may, we do need to look at the overall budget and fiscal situation as well as to the specifics. The money is probably our most important single business.

The President of the United States has done his job. He has performed his responsibility, in that, in compliance with the law, he has submitted his budget. Whether we like it or not is a different matter, but he has discharged his duty in that he has submitted his recommendations. He has submitted his budget to the Congress for consideration.

Now it is up to the Congress to discharge its responsibility.

The President is not unaware of the mood of the country. I believe he understands generally the thinking of the American people. He knows that the American people want peace. They want a successful conclusion of the war in Vietnam. In the meantime, they want domestic programs to take the back seat, relatively speaking.

On the other hand, I believe the people want a continuation of orderly government. Surely, they do not want to abandon everything we are doing in this country and sidetrack all programs while devoting ourselves exclusively to the war in Vietnam.

What the country wants and what the country needs is restraint in the application of the present laws and in the passing of additional laws relating to the expenditure of money. In other words, what the country wants is a slowdown, or certainly not a buildup, of expenditures in areas where reductions can safely be made.

Mr. Speaker, I think it wholly unlikely that the Congress will receive from the President at this session any communication or proposition bearing more vitally on the future welfare of the United States, and in fact of all mankind, than the budget and the message we have just heard. Manifestly, we can do no more than react in a general way to the tone and direction of the message and the big features of the overall budget. I shall supplement these observations with additional remarks and supporting statistics, but anything so vast, so complex, and so encompassing as this huge compilation known as the budget of the United States will require weeks and months of individual and committee study and floor debate to fully ingest and process.

There are some distinguishing features to this message and this budget—some quite remarkable, some quite unremarkable. Perhaps the most unremarkable, yet in some ways significant thing about it is that, like the last budget, and even several budgets previously, the great bulk of it will unquestionably receive broad acceptance from both parties and throughout the country. Undoubtedly, some features will be greatly controverted.

I believe the President has put some things in the budget—I know he has—of which I will not approve, and of which some other Members will not approve. He has cut too low in some places, in my judgment, and he has gone too far in some places. This is inevitable. This is not something about which we should complain here, because it is the President's responsibility to propose, and it is our responsibility to dispose of the matter from the legislative standpoint.

For myself, and I would hazard to say probably for the great majority, I like the general tone and direction of the message. I believe it responds reasonably well to the imperative necessities of the times. It heads in the right direction. Bringing the deficit down to \$1.8 billion from \$6.4 billion now shown for the current year, in the face of what we are having to do in Vietnam, is quite remarkable. It looks to me like a fiscally responsible course.

The message is remarkable for its manifestations of restraint, yet equally noteworthy for its unrestrained commitment to the cause of peace and freedom. It is unrestrained in its message to the world Communist movement, and in its allocation of resources to give substance to that message, that we will do what we have to do to preserve our freedom and that we cannot be defeated by force of arms. Implicit is the message that the breath of freedom is like an eternal flame—unquenchable, imperishable. There can be no limits to the necessities—there will be no limits—because there is no second place in the struggle.

Mr. Speaker, when we wish to emphasize something we do so by repeating it, or if we are writing, we underscore it. The printer italicizes it—italics are supplied for emphasis. I want to underscore and italicize and emphasize by repeating a passage from today's message that I believe epitomizes the remarkable restraint through which and by which the President and his many associates have succeeded in containing budget expenditures and marked out big strides that can be taken and, in his opinion, ought to be taken by the Congress toward balancing the budget. I read from the first page:

"The rate of advance in the new programs has been held below what might have been proposed in less troubled times; many older and lower priority activities have been reduced or eliminated, and economies have been sought in every operation of the Government."

The dominant theme struck by this message and this budget—in all but the most imperative and unassailable national security and defense necessities—is restraint, moderation, discipline. The budget is the convening place for all the policies and programs of the Government. It is the occasion of the greatest contest between conflicting and competing interests. With public money never in overabundance; with these great contests between needs and wants for a place in the budget; and especially with the great unfertilized seedbeds of budget growth so generously sown by the Congress in new legislative enactments last year, who would deny that the President and his associates have exercised remarkable restraint and great ingenuity in putting together a war, peace, and prosperity budget only \$1.8 billion out of balance?

When we consider the much larger \$6.4 billion deficit now foreseen for the current year, the \$1.8 billion looks all the more remarkable. It involved some painful and unpopular choices; some cutting out; some hacking at the roots as well as at the branches; some deferments to a more propitious times. And low-priority defense spending did not escape the knife. It was not done without great effort and much study and I believe the people will generally applaud those efforts.

Of course, there are some programs which are large in importance but not so large, relatively speaking, where the major controversies will come. There will be no controversy about the importance of defense appropriations. We will have to provide nearly \$13 billion for interest on the debt, because that is automatic. We will have to provide for the Veterans' Administration and perhaps the probabilities are that we might go beyond the request of the Administration with respect to the care of the veterans of the country.

We will have to provide for an agricultural program. Some very sharp and painful reductions have been made in that program as well as in other programs by the President.

I suspect that there will be little controversy about the need to provide for a strong space program, even though it has been held down.

Every knowledgeable person concedes the long truth of history that growth of the population and growth of the country and its economy ordain some automatic growth in public services. Public services cost money—and thus the budget grows. I well recall President Eisenhower's often-quoted, lucid acknowledgment of this in his own budget message to Congress in 1960:

"Moreover, inescapable demands resulting from new technology and the growth of our Nation, and new requirements resulting from the changing nature of our society, will generate Federal expenditures in future years. * * * We must not forget that a rapidly growing population creates virtually automatic increases in many Federal responsibilities."

For example, there are 2,308,000 more Americans this morning than when the previous budget came last January 25. And the bellwether gross national product, total production of goods and services, grew \$47 billion last year and today's budget projects a further growth of \$46 billion this year—the basis, of course, for much of the anticipated rise in budget revenues.

Against this background, the overall fiscal 1967 administrative budget shows up rather well—it is about 15 percent of the projected gross national product, virtually the smallest in 15 years.

Another useful way of gaining some better perspective about the dimensions of Federal budget spending is to note that about three-fourths of the budget goes for objects considered proper functions since the earliest days of the Republic—national defense, internal revenue, the postal service, administration of justice, aid to veterans, conduct of foreign affairs, and interest on the debt.

CONGRESSIONAL RESPONSIBILITIES AND ACTIONS

But the budget is only the first step. It is only a plan. It is not self-executing. It is here for our consideration and our disposition; the next moves are up to us. What shall we do—what shall be our attitudes, our approach, our guidelines? We hear much about guidelines these days. What shall be our master guideline as we study and vote on these many budget recommendations?

In view of the situation confronting us, both at home and abroad, and the great uncertainties we face, I believe, and I would indulge the great hope that in respect to all nondefense, and even to low-priority defense budget items, our one principal guideline this session ought to be fiscal caution and restraint. We ought to thoroughly screen every proposition of new or enlarged authorization; every old and every enlarged appropriation; every suggestion for increased revenue; and every responsible suggestion for further reductions.

We ought to take a determined stand against marginal spending.

We might well use the same pencil the President used in making up the budget, but resharpen it and bear down a little harder when we write the legislative and appropriation bills.

I have even urged that the executive branch delay the expenditure of funds already appropriated where this can be done safely in view of the changed and changing circumstances. That is a proper course under the right circumstances. The law authorizes it. Common prudence justifies it. The necessities of war and the perils of inflation command it.

But Congress will not acquit itself well on this score unless the people generally demand and support such a course. We promised to follow a course of fiscal restraint when we adopted the big tax cut bill 2 years ago. More than ever, now is the time to redeem that pledge.

There are times, as Woodrow Wilson once wisely observed, when "the duty of economy is not debatable; when it is manifest and imperative." Now is such a time. Economic well-being is the wellspring of our strength. Inflation is its enemy.

Restraint in public spending is not easy to come by. The chain smoker finds it hard to give up the habit. The compulsive eater has the same problem. One of the Pharaohs of Egypt wanted to learn something about geometry but didn't want to study all the 13 parts of "Euclid's Elements." He said a shortcut would be agreeable, whereupon Euclid told him there was no royal road to geometry. And there is no royal shortcut road to economy.

We are not a well-disciplined people in this regard. As someone once remarked, the tendency of everything is to be more so. But a policy of discipline and good sense on the part of the people generally is the only lasting answer. Bernard Baruch, the distinguished financier and advisor to Presidents, once put the idea rather well:

"Government is not a substitute for people, but simply the instrument through which they act * * *. The greatest blessing of our democracy is freedom. But in the last analysis, our only freedom is the freedom to discipline ourselves."

What we need, then, in my judgment, is to draw a sharper distinction between our needs and our wants. A need is a necessity; a want is a desire. And as a general proposition of principle, I think it best for the health of government and the public good that all of us ought to find ourselves in some perpetual state of dissatisfaction about public spending at all levels of government, no matter what the size of the budget, but with our perspective in good focus.

BUDGETARY VARIATIONS

As we process segments of this budget during the session, we ought to also take account of the inherent nature of virtually every budget from every President in every time and administration.

Budgets set goals, chart courses of actions, outline expectations, and embody anticipations. It is not only traditional, it is understandable that a budget be somewhat optimistic in outlook and tone. In making the budget, the President has to declare something of the end from the beginning. He has to draw the first line between what he thinks we need and what he thinks we can afford as a nation. It is up to us, as independent legislators, to redraw that line as we see best. And in redrawing it, we ought to remember:

First. All original budgets are tentative at best—and the uncertainties of the Vietnam situation make this 1967 budget more tenuous than most.

Second. All original budgets turn out differently—the realizations often do not match the expectations.

Third. The hard, cold experience is that over the last many budgets, while there have been some years when realizations overmatched initial projections and the Treasury came out ahead, in the aggregate the shoe was on the other foot; there was a shortfall. Budget balances tend to be illusory.

There are many slips between the cup and the lip. Economic conditions change. Congress alters the budget. Emergencies arise. And so on. So, Mr. Speaker, as we work on these many budget recommendations, simple prudence compels the suggestion that we ought to assume some worsening of the budget position. It is wise to hedge against overoptimism and against uncertainty. Speaking about national appropriations way back in 1879, the distinguished Republican, James A. Garfield, then a Member of the House, hit the nail on the head.

"War overturns all ordinary calculations," he said. That is exactly what it has done to the current fiscal 1966 budget and to this fiscal 1967 budget. And it is the big cloud of uncertainty still hanging over the Treasury.

I included an enlightening summary on this point of budget variations:

Variations in the administrative budgets—Original projections versus final results (using the last 11 budgets, 1955-65)

[NOTE.—Rounded amounts used]

Net budget receipts:	
Original January budget projections-----	\$849,263,000,000
Final results (when the years were over)-----	840,824,000,000
Revenues fell short by-----	<u><u>-8,439,000,000</u></u>

(NOTE.—In 6 of the 11 years, revenues were less than the original budget; in 5 they were more.)

Net budget expenditures:	
Original January budget projections-----	862,502,000,000
Final results-----	883,964,000,000
Expenditures went higher by-----	<u><u>+21,462,000,000</u></u>

(NOTE.—In 8 of the 11 years, actual spending exceeded the original budget. In 3 years, it was less.)

So, in total, there was a deviation of-----+29,901,000,000

Budget surplus (+) or deficit (-):	
Original January budget projections-----	-13,239,000,000
Final results-----	<u><u>-43,140,000,000</u></u>

So, in total, instead of a total deficit of \$13,200,000,000 over the 11 years as originally projected, there was a deficit of \$43,100,000,000—a change for the worse of...-29,901,000,000

New obligatory authority (the forerunner of actual expenditures):	
Original January budget proposals from the President (which he not infrequently amends and supplements from time to time)-----	874,200,000,000
Final amounts enacted-----	<u><u>917,400,000,000</u></u>

Final amounts enacted exceeded the original budget proposals by-----+43,200,000,000

(NOTE.—In 10 of the 11 years the final amount enacted exceeded the original January budget proposal for the year.)

Source: Budget Documents, January 1966.

BUDGETARY CONTINGENCIES

Moreover, Mr. Speaker, remarkable though this budget is, it is in the red, not in the black. It is still \$1.8 billion short of balance. That is a lot of money and not only leaves no room for relaxation of our standards, no room for complacency; it calls for sacrifices.

While all budgets rest to some extent on contingencies, this \$1.8 billion imbalance now projected for fiscal 1967, and to some lesser extent the \$6.4 billion revised deficit now estimated for the current fiscal year 1966, depend partly on a fairly long list of nonappropriation legislative actions. Even holding to those amounts will involve the work of many hands and the minds of many Members and several committees. We have our work cut out for us.

A President's budget is not just a fiscal plan; it is a broad legislative plan. I can think of no exception, in previous budgets submitted by the Executive, to this statement. The President usually requests additional revenue. Maybe it is a postage rate increase or an increase otherwise in revenues. Today, the President has requested an increase in revenues for fiscal 1967, which would be equivalent to about \$4.8 billion or so in that year. Similar requests; that is, requests

requiring new legislation, were made by former Presidents both Democratic and Republican. The President submitted a plan, and according to the plan which he has submitted we will be in the red by the sum of \$1.8 billion. He could have eliminated this deficit and provided for a balanced budget had he been willing to submit a recommendation for revenues in excess of the amounts which are in fact proposed in the budget today.

For example, if Congress failed to pass the corporate income tax acceleration and the graduated individual withholding measures now pending in the Committee on Ways and Means, the \$1.8 billion deficit for 1967 would rise to \$5.4 billion and the 1966 deficit would rise to \$7.5 billion. And if the President's request that the 7-percent excise tax on automobiles and 10-percent excise tax on telephone service be restored was also not adopted, the 1967 deficit would rise another \$1.2 to \$6.6 billion and the 1966 deficit to \$7.6 billion.

Other minor tax and user charge proposals to be considered by the Ways and Means Committee, while relatively minor to the budget totals, involve not only some new concepts, but also several earlier recommendations that Congress did not see fit to adopt. Inaction would be further adverse to the budget.

Another legislative committee—presumably the Committee on Banking and Currency—will have for consideration legislation to enlarge the program of shifting credit to private sources by selling participations in pools of Government-owned loans held in several agencies. Some authority to do this already exists and the budget assumes its use, but it also assumes enactment of a bill to permit selling \$3.2 billion additional participations. Translated into budgetary terms which count these sales as offsets to expenditures rather than as receipts, the \$112.8 billion administrative spending budget for 1967, and thus the \$1.8 billion deficit, would increase by about \$2.3 billion if this is not done; \$350 million would also be added to the fiscal 1966 expenditure and deficit amounts.

Still another recommendation of legislation in today's budget which the Committee on Agriculture probably will have before it would authorize fees for meat, poultry and commodity inspection and classification. These involve about \$68 million and the deficit would deepen if not enacted.

Legislation that would reduce 1967 expenditures by \$42 million by shifting forest and public land highways from the general budget to the highway trust fund budget is also in today's budget—presumably the Committee on Public Works will have the bill before it. And the budget proposes legislation similarly treating the new highway beautification program; this is tied to a budget proposition to shift some automobile excise tax funds to the highway trust fund. It involves \$67.7 million of spending. Failure of either or both would adversely affect the \$1.8 billion deficit.

Proposed legislation involving operation of the Government mortgage liquidation fund, and about \$252 million, and shown as an expenditure reduction in 1967, is urged in today's budget. Failure of enactment would deepen the deficit by the \$252 million.

Another significant budget assist that reflects necessary and timely action, but which cannot be counted on to keep recurring at the immediately projected level, is the sale of stockpiled materials. As I understand it, the budget assumes that sales of \$1.9 billion will be made this year and next, but this will require certain congressional actions.

The budget again proposes that operations of the REA and power administrations of the Interior Department be placed on a revolving fund basis. These are bookkeeping propositions in that both budget receipts and expenditures are equally reduced, with no resulting effect on the deficit.

These are some of the principal instances of contingent conditions on which the \$1.8 billion hinges. They aggregate, for 1967, over \$7 billion. Many other factors influence the final results, of course. A key point here, however, is that some of these propositions, running into \$5 billion or more, are one shot, non-recurring; a certain budgetary fortuitousness surrounds them. It is well to keep in mind as we process the budget that, once adopted, they will not recur to help balance the following year's budget. We must look ahead, to the longer view. Government is a continuing and ever-increasing, costly business. A single fiscal year is but a brief, arbitrary accounting period in the world's biggest ad infinitum business.

On the new obligational authority, rather than the expenditure, side of the budget, four of the propositions in today's message that depend on actions by several legislative committees involve over \$1 billion in new obligational authority cancellation. Two items involve cancellation of \$750 million now available for

college housing and Federal National Mortgage Association; \$91 million relating to highway beautification; and \$305 million attending the proposition to put REA operations on revolving fund accounting. Inaction on either of them would have the effect of exceeding the President's aggregate budget obligational requests by just that much.

In virtually every session, something is said about so-called budgetary gimmicks or gadgets that, if not by design then in effect, more or less tend to minimize budget totals. I do not recall any budget of the last 10 or 15 or more years—whether from a Republican or a Democratic President—that did not have a few proposals that someone either did or could somehow label as “phony,” or “book-keeping,” or “gimmickry.”

I remember one in particular in President Eisenhower's fiscal 1956 budget that at the time was considered one of the most unusual entries ever encountered in a national budget. The countless budget items were totaled up and at the bottom of the page just before the grand total, an “unallocated reduction” of \$1,750 million was entered against the expenditure total. The individual appropriation requests were not reduced; just the total estimate of spending. It brought the defense budget expenditure total—not the detailed estimates, just the grand total—down from \$35,750 million to an even \$34 billion and, of course, similarly lowered the overall budget total. The appropriation requests and the supporting details for defense were hitched to the \$35,750 million basis, not the \$34 billion.

This unusual item was advanced as representing defense economies that could not then be pinpointed but which it was hoped could be realized on a day-to-day operational basis throughout the fiscal year.

But as not infrequently happens, the expectation exceeded the realization. Not only was none of the \$1,750 million realized; final defense expenditures that year consumed all of it and \$41 million besides.

The fact is that Federal operations and activities are so vast, so varied, and so complex, and involve such a wide assortment of accounting and financing arrangements, that it should surprise no one who knows anything about the situation if, in the ordinary course of events, propositions are advanced for adjusting or changing some of the arrangements or otherwise dealing with the finances of the Government. Some may, at times, seem unrealistic. Some may, at times, be unduly optimistic in the opinion of a majority. Some may even be fortuitous to the situation of the moment. But all that I remember seeing were entitled to be in the budget if the President thought it appropriate to put them there. Nothing the President of the United States says is immaterial—or should be regarded as immaterial.

The budget law of 45 years standing directs the President to propose to the Congress whatever budgetary and legislative recommendations he deems appropriate, along with his reasons. He has carte blanche in this respect. It is then for the Congress, on its own responsibility, to accept or reject.

All such propositions are set out in the President's budget, for all to see. None can be put into effect if Congress wishes to countermand them. Some of them usually hinge upon action by Congress at the current session; some can usually be administratively done based on previous law. But that is the point—they must all be lawful.

Congress has its own independent responsibilities and has the final say on what the appropriations shall be and, ultimately, what the expenditures shall be. And it is our final prerogative to say what shall be done about the many recommendations in the budget. The President, acting within the law, has seen fit to make recommendations. It is up to us here in Congress to dispose of them as we see fit, by majority vote in the democratic tradition.

NEW LEGISLATIVE PROPOSITIONS WITH BUDGET AMOUNTS

Mr. Speaker, another noticeable feature of this budget is the much smaller number of propositions of legislation for new or extended activities calling for additional appropriations. There are only a few in today's message, in sharp contrast to the much longer list last year.

The first-year costs of these recommendations are included in the budget totals of both new obligational authority and expenditures. These are the class of items that must first go through the legislative authorization procedure before they are eligible under the rules to be considered in the appropriation bills. New legislation, of course, is the principal seedbed of higher future budgets; the first-year amounts are often comparatively small.

But another striking thing about this year's list of proposed new legislation is that it includes a relatively large number of items designed to diminish rather than increase budget totals, although several of them are either one-time or of short duration effect.

For general information, I include a tabulation from the Budget Bureau summarizing these propositions of new legislation:

Propositions of new legislation in the budget for 1967 for both fiscal years 1966 and 1967

[In thousands of dollars]

	Fiscal 1966		Fiscal 1967	
	New obligational authority requested	Administra- tive budget expenditures (estimated)	New obligational authority requested	Administra- tive budget expenditures (estimated)
INTERNATIONAL FINANCIAL INSTITUTIONS				
Investment in Asian Development Bank	120,000	10,000	20,000	10,000
Agriculture:				
FHA—Sale of assets				-549,000
(FNMA—Sale of assets)				(-51,000)
REA—Revolving fund		-189,000	-305,000	-196,000
CMS—User charges	20,360		-71,298	-66,172
ARS—User charges			-1,478	-1,478
Total proposed legislation, Agriculture	20,360	-189,000	-377,776	-812,650
Commerce:				
Bureau of Public Roads:				
Forest highways			-33,000	-33,000
Public lands highways			-7,000	-9,000
Highway beautification			-91,750	-67,690
Highway safety			-210	-310
Trust funds:				
Forest and public lands highways (li- quidation of contract authorization)			(42,000)	
Highway beautification			(151,000)	
Total proposed legislation, Com- merce			-131,960	-110,000
HEW:				
Public Health Service:				
Nurse and medical student loans			-20,900	-20,900
General health legislation to strengthen manpower and planning for health services and facilities			41,000	23,000
Water Pollution Control Administration:				
Clean rivers demonstration, strengthened enforcement, research development and training, and State support			74,100	23,500
Office of Education:				
NDEA student loans—Rescission of 1967 NOA and expenditures			-34,187	-34,187
Expenditure effect of sale of participa- tion certificates in pools of college academic facilities loans				-85,000
Total proposed legislation, HEW			60,013	-93,587
HUD:				
Pool participation sales:				
College housing loans			-300,000	-801,000
Public facility loans				-77,700
FNMA			-450,000	-383,265
Government mortgage liquidation fund:				
Aids to private housing				-16,735
Advancement of business				-161,433
Financing farm and rural housing				-51,000
Assistance to higher education				-21,525
Urban renewal and community facili- ties				-2,300
City demonstration grants			12,000	5,000
Total proposed legislation, HUD			-738,000	-1,509,958

Propositions of new legislation in the budget for 1967 for both fiscal years 1966
and 1967—Continued

[In thousands of dollars]

	Fiscal 1966		Fiscal 1967	
	New obligational authority requested	Administra- tive budget expenditures (estimated)	New obligational authority requested	Administra- tive budget expenditures (estimated)
INTERNATIONAL FINANCIAL INSTITUTIONS—Con.				
Interior:				
Reclamation—3d powerhouse at Grand Coulee			3,000	2,400
Bonneville Power Administration	-38,951	-38,951	-40,432	-40,432
Southeastern Power Administration	-1,000	-25,200	-1,000	-26,200
Southwestern Power Administration	-1,731	-1,731	-3,325	-3,325
Total proposed legislation, Interior	-41,682	-65,882	-41,757	-67,557
Labor: Advance to the Employment Service			-23,000	-23,000
Veterans' Administration: Readjustment bene- fits—Cold war GI bill			100,000	90,000
Small Business Administration: Proposed par- ticipation sales authority legislation		-350,000		-383,292
District of Columbia:				
Revised Federal payment formula			11,900	11,900
Loan to District of Columbia for capital outlay, highway fund			11,300	11,300
Total proposed legislation, District of Columbia			23,200	23,200
Grand total, proposed legislation for 1966 and 1967 in the 1967 budget	98,678	-594,882	-1,109,280	-2,876,844

WHICH BUDGET TOTAL IS BEFORE US FOR ACTION ?

Mr. Speaker, the more generally familiar \$112.8 billion administrative spending total is not the one on which we will be acting directly in the various authorization and appropriation bills this session. There is always considerable—and, I might add, understandable—confusion on the question of which budget we process. So it may help those who have occasion to examine these remarks if I try to bring some better understanding to the matter.

The \$112.8 billion total represents the administrative spending budget—the disbursements, or checks-to-be-issued budget during the fiscal year 1967, which begins this coming July 1. It includes billions and billions to be spent from carryover balances of appropriations already voted in earlier sessions—some \$30.7 billion in fact.

The new obligational requests in today's budget for fiscal 1967 is \$121,904 million. The greater part of that will be expended in 1967 but considerable billions will carryover for actual disbursement—and some even for initial obligation—to fiscal year 1968 and beyond. On top of that, today's budget also contemplates supplemental new obligational requests of \$15,757 million for the current fiscal year 1966—and in fact a nearly \$13 billion request came from the President last week in the Vietnam defense supplemental.

Those are the initial expectations, the present indications, as shown in today's budget. There will be revisions and amendments as the session ensues—there always are—but, barring great emergencies, these are the general dimensions of what we are asked to authorize and appropriate. They total \$137,661 million for fiscal years 1966 and 1967 combined—for the session, in other words.

There is one other pertinent note to what I have just said. Under laws of earlier Congresses, there are a group of so-called permanent appropriations that come about every year under terms of those earlier laws, and thus do not need to be acted upon in bills each session. This year, for fiscal 1967, they are presently estimated in the budget at \$15,650 million; interest on the debt is by far the largest, but there are several others. They are set out in the budget. The amount is in both the \$121.9 billion and the \$137.7 billion totals I cited.

So using today's initial budget amounts, the House will be considering and acting on a budget considerably different from the \$112.8 billion spending budget figure.

The following table may be helpful in summarizing the figures on this point:

Spending and new obligational budgets—the portions subject to action this session

	Administrative budget estimate of expenditures (disbursements)	Administrative budget requests for new obligational authority
Relating to fiscal 1967:		
1. Totals proposed, President's budget, Jan. 24, 1966.....	\$112,847,000,000	\$121,904,000,000
2. Deduct estimate of expenditures in fiscal 1967 against obligational authority made available in prior sessions (and therefore not before the present session for action).....	-30,739,000,000	-----
3. Deduct amounts applicable to permanent appropriations recurring automatically without necessity for action in this session (several items; interest is by far the largest. Expenditure figure here may negligibly duplicate some (small) part of item 2, but not enough to distort).....	-15,650,000,000	-15,650,000,000
Amount relating to fiscal 1967 involved in proposals for direct consideration and action in this session.....	66,458,000,000	106,254,000,000
Relating to fiscal 1966:		
4. Supplementals for fiscal 1966 as shown in the President's 1967 budget, Jan. 24, 1966, for direct consideration and action in this session.....	5,797,000,000	15,757,000,000
Totals for this session:		
5. Totals proposed, President's budget, Jan. 24, 1966 (items 1 and 4).....	118,644,000,000	137,661,000,000
6. Totals for direct consideration and action in this session item 5, less items 2 and 3 which arise out of actions taken in prior sessions).....	72,255,000,000	122,011,000,000

NOTES

Item 2, in the "expenditure" figure, would include some amounts applicable to activities subject to annual scrutiny under the Corporation Control Act which would largely result, however, from new obligational authority granted in previous sessions.

Item 3, the "expenditure" figure is a bit arbitrary, because a few relatively small items cannot be separately identified.

Source: The budget for 1967.

NEW OBLIGATIONAL AUTHORITY—THE FORERUNNER OF SPENDING

Mr. Speaker, appropriations, or new obligational authority, are the forerunners of actual expenditures. Of course, the true genesis of spending under our system is the legislative authorization bills engaging the Government in new endeavors. It is somewhat akin to the ancient and immutable law of physics that what goes up must eventually come down. Whatever is put into the budget pipeline by appropriation or new obligational authority will, sooner or later, be expended. The job may be done without spending every dollar appropriated, and emergencies or changed conditions may sometimes call for withholding the use of it, but as a general proposition of principle, the level of new obligational authority voted by Congress is an accurate barometer to the future level of budget spending.

The grant of the power to obligate the Government to pay is the significant point of decision. The act of drawing the checks to pay the obligations—whether all in the same year the obligation was vested, whether some in future years, and so on—is essentially immaterial to the fundamental decision to empower the creation of the obligation. The authority to obligate and the actual obligation is what sets the wheels in motion. No obligation, no expenditure. A lower obligational authority means sooner or later, a lower expenditure. And, a higher obligational authority, sooner or later, means a higher expenditure. So, the appropriations, or "new obligational authority," is the more important to congressional consideration not only because it is the first step but also because it is the basis on which congressional actions are grounded.

We crossed the much publicized \$100 billion barrier mark in new obligational authority not this year, but back in fiscal 1963; it was then only a question of time before the ensuing expenditures did likewise. The table I am inserting shows the situation in today's budget.

Mr. Speaker, as I tried to urge earlier, the heavy cloud of uncertainties hanging over us at this time calls for sacrifices and for fiscal restraint. I would underscore one point—good intentions in affairs of public money have a way of coming unglued, of going aglimmer. Final results have a way of being wide of the original marks—wide in the wrong direction, and for many reasons. Here is a striking fact that I think worth noting as we begin consideration of another budget: In 10 of the last 11 fiscal years, through all administrations and through good times and bad, final amounts of new obligating authority written onto the books of the Government exceeded the original January budget proposals by the huge sum of \$43,200 million or an average of nearly \$4 billion a year. There were many reasons but there was only one result—higher spending than originally estimated. So it seems to me we had best double our endeavors to deny access to the Treasury for any desirable but low-priority expenditures.

I include comparative statistics on defense and nondefense new obligating authority:

New obligational authority—Defense and nondefense

[Administrative budget basis, rounded amounts used]

[In millions of dollars]

Fiscal year	National defense functions	Other than national defense	Total new obligational authority
1953 enacted (Korean war year).....	57,298	23,010	80,308
1954 enacted (1st post-Korean year).....	39,471	23,294	62,765
1955 enacted.....	33,656	23,420	57,076
1956 enacted.....	35,903	27,295	63,198
1957 enacted.....	41,344	28,835	70,179
1958 enacted.....	40,448	35,897	76,354
1959 enacted.....	45,517	35,848	81,365
1960 enacted.....	44,761	34,813	79,574
1961 enacted.....	45,994	40,681	86,675
Increase in level, 1961 over 1954.....	+6,523	+17,387	+23,910
1962 enacted.....	52,414	40,448	92,862
1963 enacted.....	54,323	47,990	102,283
1964 enacted.....	53,762	47,341	101,103
1965 enacted.....	53,198	53,410	106,608
1966: Enacted in the last session.....	52,536	57,689	110,225
Proposed supplementals in current session.....	13,222	2,535	15,757
Total proposed, 1966.....	65,758	60,224	125,982
1967 total now proposed (as shown in 1967 budget).....	62,205	59,699	121,904
Comparisons:			
1967 total proposed compared to 1966 inclusive of proposed 1966 supplementals.....	-3,553	-525	-4,078
1967 total proposed compared to 1965 enacted.....	+9,007	+6,289	+15,296
1967 total proposed compared to 1961 enacted.....	+16,211	+19,018	+35,229

NOTE.—Data in this table corresponds to the classification used in the 1967 budget. "National defense functions" include Department of Defense military functions, including foreign military assistance; Atomic Energy Commission; stockpiling of strategic and critical materials; Selective Service System; expansion of defense production; and civil defense and emergency preparedness activities.

Source: Budget documents.

DEFENSE AND NONDEFENSE SPENDING

Mr. Speaker, it is useful to a better grasp of the dimensions and growth of Federal spending to examine, as we have done for some years, the allotment of budget resources between defense and nondefense.

For several years after the Korean war, the level of defense spending stood virtually still while nondefense spending rose rather steadily. From fiscal 1954 through fiscal 1961, defense spending rose only 1 percent while nondefense spending increased 65 percent.

The subsequent buildup following the 1961 Berlin crisis, the later emphasis on conventional and limited war capability, and buildup of our intercontinental ballistic missiles brought about some change in the proportional balance of increased spending as between defense and nondefense outlays. Then, the substantial completion of these buildups led to a renewed emphasis on domestic programs and brought about a degree of reversal to these ratios.

But again, the new and rising demands of the war in Vietnam, coupled with cutting back on some old programs and withholding fuller support for some of

the new ones, have tilted the proportions of increase a bit in the other direction. War is an upsetting circumstance. As you just heard the President say in the message:

"Excluding both special Vietnam costs and the recommended tax measures, the 1967 administrative budget could have been in surplus."

Comparing the spending figures estimated in today's budget, defense spending in fiscal 1967 rises 7 percent above the present expectation for the current year 1966. In contrast, nondefense spending is up less than 5 percent.

I include a tabulation in general support:

Defense and nondefense net budget expenditures for the fiscal years 1953-67

[Administrative budget expenditures—Dollars in millions]

Fiscal year	National defense functions		Other than national defense		Total budget expenditures
	Amount	Percent of budget totals	Amount	Percent of budget totals	
1953 actual (Korean war year).....	\$50,442	68.1	\$23,678	31.9	\$74,120
1954 actual (1st post-Korean war year).....	46,986	69.6	20,551	30.4	67,537
1955 actual.....	40,695	63.2	23,694	36.8	64,389
1956 actual.....	40,723	61.5	25,501	38.5	66,224
1957 actual.....	43,368	62.9	25,598	37.1	68,966
1958 actual.....	44,234	62.0	27,135	38.0	71,369
1959 actual.....	46,483	57.9	33,859	42.1	80,342
1960 actual.....	45,691	59.7	30,848	40.3	76,539
1961 actual.....	47,494	58.3	34,021	41.7	81,515
Increase in level, 1961 over 1954.....	+508	+1.1	+13,470	+65.5	+13,978
1962 actual.....	51,103	58.2	36,684	41.8	87,787
1963 actual.....	52,755	56.9	39,887	43.1	92,642
1964 actual.....	54,181	55.5	43,503	44.5	97,684
1965 actual.....	50,163	52.0	46,344	48.0	96,507
1966 (current estimate in 1967 budget).....	56,560	53.1	49,868	46.9	106,428
1967 (as shown in 1967 budget).....	60,541	53.6	52,306	46.4	112,847
Increase in level, 1965 actual over 1961.....	+2,669	+5.6	+12,323	+36.2	+14,992
Increase in level, 1966 current estimate over 1961.....	+9,066	+19.1	+15,847	+46.6	+24,913
Increase in level, 1967 estimate over 1961.....	+13,047	+27.5	+18,285	+53.7	+31,332
Increase in level, 1967 estimate over 1966 current estimate.....	+3,981	+7.0	+2,438	+4.9	+6,419

NOTES.—The data on this table correspond to the classification used in the 1967 budget. "National defense functions" include Department of Defense military functions, including foreign military assistance; Atomic Energy Commission; stockpiling of strategic and critical materials; Selective Service System; expansion of defense production; and civil defense and emergency preparedness activities.

Source: The Budget for 1967 (with percentages and comparisons supplied).

THE NATIONAL DEBT

Mr. Speaker, an increased national debt necessarily results from unbalanced national budget as we borrow to cover the difference. The bulk of our national debt was incurred in World War II; some during Korea; and of course the Vietnam war contributes, but we have also been borrowing from the future to help pay current domestic program costs. And we have been doing so in times of unmatched national prosperity yielding record Treasury revenues.

One of the most striking signs of changing national attitudes over the last 35 years is the decline in national self-discipline and restraint manifested by a rather persistent unwillingness to keep our outgo within our income in times of economic affluence. Not only is this drift of the majority view less than ideal in the minds of many; it is unsettling.

And as today's budget discloses, the complications of war expenditures will make it necessary, as in all but 1 of the last 12 years, to again raise the debt ceiling to accommodate the projected shortfall of revenues.

If every projection on every side of today's budget materialized exactly, the debt this June 30 would be \$320 billion and would rise to \$321,700 million at the end of the budget year of 1967. The economic weight or burden of the debt in the aggregate, as measured in relation to gross national production continues to lighten—from nearly 58 percent in 1960 to 45 percent, estimated, this June and 43 percent, estimated, in June of 1967.

Summary of direct and guaranteed debt on significant dates

[Based upon statement of the public debt published monthly; consequently all figures are stated as of the end of a month]

Date	Classification	Total debt (including interest bearing debt, matured debt on which interest has ceased and debt bearing no interest)			General fund balance ³
		Direct debt (gross)	Guaranteed debt ^{1 2}	Total direct and guaranteed debt	
Mar. 31, 1917	WORLD WAR I	Prewar debt.....		\$1,282,044,346.28	\$74,216,460.05
Aug. 31, 1919		Highest war debt.....	26,596,701,648.01	26,596,701,648.01	1,118,109,594.76
Dec. 31, 1930		Lowest postwar debt.....	16,026,087,087.07		16,026,087,087.07
June 30, 1940	WORLD WAR II	Debt preceding defense program.....	\$3,528,070,655.28	48,496,001,692.96	1,890,743,141.34
Nov. 30, 1941		Pre-Pearl Harbor debt.....	6,324,048,005.28	61,363,807,032.26	2,319,496,021.87
Feb. 28, 1946		Highest war debt.....	550,810,451.19	279,764,369,348.29	25,960,900,919.30
June 30, 1946		Debt at end of year in which hostilities ceased.....	476,384,859.30	269,898,484,032.56	14,237,883,295.31
Apr. 30, 1949		Lowest postwar debt ⁴	22,851,435.16	251,553,319,789.98	3,965,156,916.79
June 30, 1950	SINCE KOREA				
June 30, 1950	Debt at time of opening of hostilities in Korea (hostilities began June 24, 1950).....	257,357,352,351.04	19,503,033.97	257,376,855,385.01	5,517,087,691.65
Dec. 31, 1952		297,391,155,979.65	53,969,565.31	297,445,125,544.96	6,064,343,775.84
Nov. 30, 1965		321,711,457,774.79	464,516,350.00	322,175,974,124.79	6,759,453,114.17
Dec. 31, 1964	Highest debt ⁵	317,940,472,718.38	809,241,906.00	318,749,714,615.38	7,295,120,212.97
Nov. 30, 1965	Debt a year ago.....	321,711,457,774.79	464,516,350.00	322,175,974,124.79	6,759,453,114.17
Dec. 31, 1965	Debt last month.....	320,904,110,042.04	455,241,200.00	321,359,351,242.04	6,582,097,195.90
Dec. 31, 1965	Debt this month.....				6,582,097,195.90

¹ Does not include securities owned by the Treasury.
² Includes outstanding matured principal of guaranteed debt of U.S. Government agencies for which cash to make payment is held by the Treasury of the United States in the general fund balance.
³ Based upon estimates of the Bureau of the Census.
⁴ Represents the lowest point of the debt at the end of any month following World War II. The lowest point of the debt on any day following that war was on June 27, 1949, when the debt was as follows:
 Direct debt (gross)..... \$251,245,889,059.02
 Guaranteed debt of U.S. Government agencies..... 23,876,001.12
 Total direct and guaranteed debt..... 251,269,765,060.14

⁵ Represents the highest point of the debt at the end of any month. The highest point of the debt on any day was Dec. 28, 1965 when the debt was as follows:
 Direct debt (gross)..... \$322,145,019,982.27
 Guaranteed debt of U.S. Government agencies..... 456,476,150.00
 Total direct and guaranteed debt (includes \$280,985,067.76 not subject to statutory limitation)..... 322,601,466,102.27
⁶ Subject to revision.
⁷ Revised.

CONCLUSION

Mr. Speaker, we again heartily commend the President and his many associates for their long and profitable labors in the direction of economy. This is the third successive budget in which the President has worked tirelessly to contain the totals and to strike for more economy and efficiency, more for the dollar in government. This is good, for deep are the ingrains of entrenched ways. Tenacious are the proclivities to self-perpetuation and ingenious are the ways to justify it.

Restraint is surely the need of the times and ought to be the order of this session. As a great legislative body with independent responsibilities and full and unfettered power over public money, I would hope we would do everything feasible to follow a course of fiscal caution and do nothing to shunt us from it.

We in the Committee on Appropriations begin hearings with the Secretary of the Treasury and the Director of the Budget next Monday. We will shortly develop, harmonious to the plans of the leadership, a schedule of hearings and floor debate for the appropriation bills. Our doors are open for any constructive suggestion at any time from any Member or anyone else. We do not know all the answers. We are less than perfect. And we are only one committee. We need help and support from all sides and from all Members. And in a time of considerable fiscal uncertainty with the budget still in deficit, we especially invite suggestions on how to improve on the business at hand.

Mr. Speaker, I ask unanimous consent to revise and extend my remarks at this point in the Record and to include various tables and excerpts relating to the President's budget.

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